



TAKING IT TO THE NEXT LEVEL

Summit Bank Corporation

2004 ANNUAL REPORT



DIFFERENT SKILLS. DIVERSE CULTURES.

All coming together to take us to the next level.

Summit Bank brings together bright, hard-working people from many different cultural backgrounds. Some of us were born here, some in other countries. Some speak several languages. But we have one thing in common. We are all working together to provide the outstanding customer service and innovative ideas that are helping us reach a whole new level of growth and success.

FINANCIAL HIGHLIGHTS

As of December 31, **2004** 2003 2002 2001 2000
(dollars in thousands, except share and per share data)

BALANCE SHEET DATA

| | | | | | |
|----------------------|-------------------|------------|------------|------------|------------|
| Total assets | \$ 547,708 | \$ 477,145 | \$ 402,860 | \$ 341,443 | \$ 283,403 |
| Loans | 339,205 | 317,072 | 258,723 | 219,744 | 190,354 |
| Deposits | 434,453 | 368,599 | 317,426 | 294,924 | 239,274 |
| Stockholders' equity | 34,629 | 32,736 | 31,176 | 27,396 | 25,950 |

Year ended December 31, **2004** 2003 2002 2001 2000

STATEMENT OF INCOME DATA

| | | | | | |
|---------------------------|-----------------|----------|----------|----------|----------|
| Net interest income | 18,430 | 16,403 | 13,802 | 12,465 | 14,269 |
| Provision for loan losses | 1,090 | 1,199 | 1,130 | 755 | 1,250 |
| Noninterest income | 3,928 | 3,929 | 5,023 | 3,184 | 3,530 |
| Noninterest expenses | 13,737 | 12,211 | 11,808 | 11,002 | 10,692 |
| Income tax expense | 2,378 | 2,100 | 1,743 | 1,280 | 2,070 |
| Net income | \$ 5,153 | \$ 4,822 | \$ 4,144 | \$ 2,612 | \$ 3,787 |

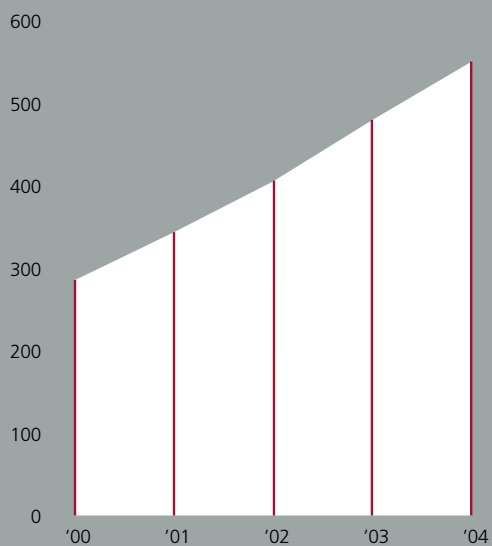
PER SHARE DATA

| | | | | | |
|---|------------------|-----------|-----------|-----------|-----------|
| Book value per share at year end | \$ 6.09 | \$ 5.79 | \$ 5.51 | \$ 4.72 | \$ 4.37 |
| Basic earnings per share | .91 | .85 | .74 | .44 | .64 |
| Diluted earnings per share | .91 | .85 | .74 | .44 | .64 |
| Weighted-average shares outstanding - basic | 5,686,563 | 5,652,604 | 5,636,904 | 5,905,365 | 5,950,833 |
| Weighted-average shares outstanding - diluted | 5,687,303 | 5,672,007 | 5,646,608 | 5,905,365 | 5,950,833 |
| Dividends declared | \$.40 | \$.35 | \$.27 | \$.24 | \$.20 |

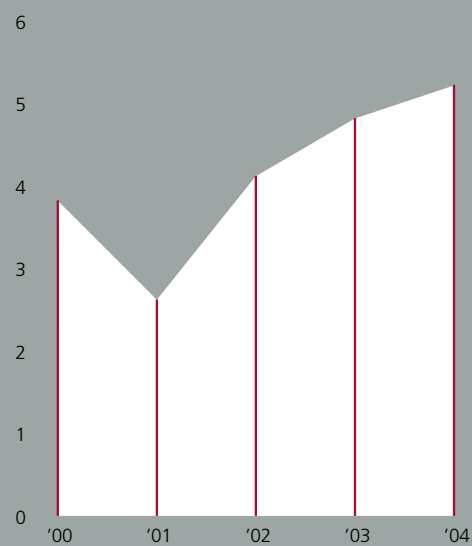
RATIOS

| | | | | | |
|---|---------------|--------|--------|-------|--------|
| Return on average assets | 1.03% | 1.11% | 1.12% | .80% | 1.35% |
| Return on average equity | 15.29% | 15.09% | 14.61% | 9.65% | 15.94% |
| Net interest margin | 3.94% | 4.08% | 4.02% | 4.14% | 5.67% |
| Non-performing assets/total loans and other real estate | .84% | .12% | .39% | .21% | 1.06% |
| Allowance for loan losses/total loans | 1.34% | 1.28% | 1.33% | 1.47% | 1.65% |

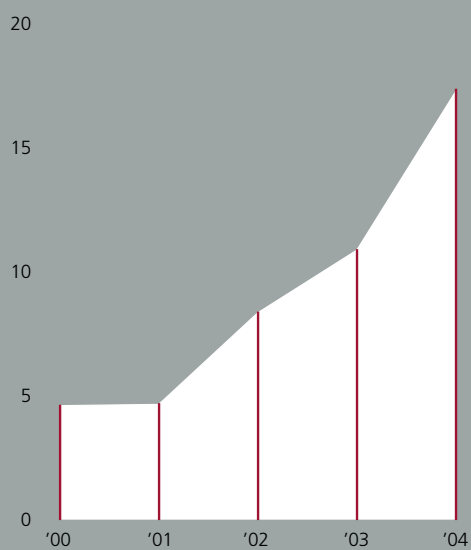
Note: Share and per share data have been adjusted for the 50% stock dividend effective February 17, 2004, as well as the 2002 and 2001 stock dividends.



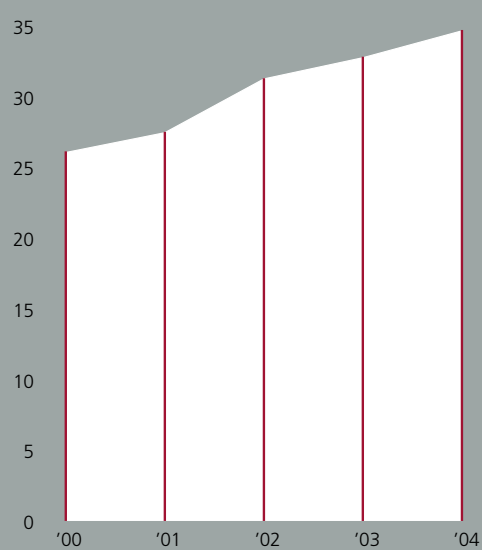
TOTAL ASSETS
in millions of dollars



NET INCOME
in millions of dollars



STOCK PRICE
as of year end



SHAREHOLDER'S EQUITY
in millions of dollars

THE NEXT LEVEL

We believe that our strengthened organizational structure, the professionalism of our officers and employees, our shared objective of working together to make a better future for ourselves, our strong conviction in serving well our diverse customer base, our responsibility to generate a meaningful return for our shareholders and our continued commitment to our communities will take Summit to the next level.

TO OUR SHAREHOLDERS

2004 was a year Summit reached a milestone of exceeding a half billion dollars in total assets accompanied by record earnings. Summit ended the year with total assets of \$548 million, an increase of 15% from \$477 million a year ago. Net income increased 7% to \$5.2 million, or \$.91 per share, diluted, compared to \$.85 in 2003. Our return on equity improved to 15.29% from 15.09% for the prior year.

These results speak to Summit's solid balance sheet and core earnings. Net interest income increased by 12.4% to \$18.4 million, largely the result of a \$66 million increase in average earning assets, supported by a \$47 million increase in average deposits. Average loans outstanding increased by 16% even though period-end loans outstanding were \$335 million, increasing by 7%. Average deposits increased 14% while period-end deposits were \$434 million compared to \$369 million in 2003, an increase of 18%. Interest free demand deposits were 24% of all deposits, strong by community bank standards.

"OUR PEOPLE ARE TRULY OUR GREATEST STRENGTH. AS WE MOVE FORWARD, WE ARE CONFIDENT THAT WE HAVE A KNOWLEDGEABLE TEAM AND A SOLIDLY BUILT INFRASTRUCTURE WE NEED TO TAKE ADVANTAGE OF THE BUSINESS OPPORTUNITIES THAT LIE AHEAD."

These results were achieved in a year of significant infrastructure expansion. This expansion included the opening of a limited service branch to facilitate deposits from loan customers and to attract international trade services from the south side of Atlanta; the building of a branch in the affluent Atlanta

suburb of Duluth, where we have begun to see a concentration of Korean and Chinese businesses and residences; the relocation of our San Jose Branch to a much more prominent location, as well as the first full year of expenses for our Fremont Branch which opened in July of 2003 and the opening of the Representative Office in China in mid-year 2004. The Park Village Branch in Duluth opened in March of 2005; however, staffing began in the third quarter of 2004. Other infrastructure expenses included additional personnel for the risk management and compliance areas.

This year, we intend to focus on capitalizing on the expanded capacity in both the branch network and international trade services. We have already experienced some of the benefits of local representation in China, both in terms of establishing correspondent relationships with banks in China that cater to private sector exporters for fee-based transaction business, as well as the ability to assist U.S. importers and exporters doing business in China. 2004 was the third consecutive year of increased international fee income. International fee income grew 8%, experiencing a 25% growth in the fourth quarter, compared to the same period a year ago. While international business is cyclical and closely related to economic conditions and inventory movement, we see evidence of improving momentum for continued growth this year.

Our new Park Village Branch is well positioned for success with the expanding Korean and Chinese communities in the Duluth area. With diligent canvassing and the advantage of being the first Asian-focused financial institution in this affluent part of town, we expect to build a meaningful share of small business



and Asian banking relationships in this area. Our California branches continue to experience steady growth. While we have no immediate plans to build additional branches for 2005, we may consider expanding our California footprint should any sensible acquisition opportunities arise. Adding real value for our shareholders remains our primary goal.

In 2004 we continued to see improved liquidity of our shares, partly due to increased visibility in the investment community. In February 2004, the Board announced a 50% stock dividend and 14% increase in our cash dividend. Our share price began the year trading at \$10.54 and ended the year trading at \$17.28 (adjusted for the split). Management will continue to work diligently along our strategy and plan for growth and profitability, as well as expanding awareness of our stock among analysts, investors and potential investors.

With ever increasing regulatory requirements in the banking industry, we have taken a proactive approach to the importance of compliance in 2004 as we reached a new stage in our organizational growth. Summit employees have been stretched and challenged with a number of compliance requirements, but, as always, they rose to the occasion, and we are better for it. 2005 will see continued efforts to ensure that we meet the requirements proportionate to our current business model and as required by recently enacted laws and regulations.

We believe that our strengthened organizational structure, the professionalism of our officers and employees, our shared objective of working together to make a better future for ourselves, our strong conviction in serving well our diverse customer base,

our responsibility to generate a meaningful return for our shareholders and our continued commitment to our communities will take Summit to the next level.

Towards this end, we are grateful for our active Board of Directors who keeps us unswervingly on course, our seasoned management team, and our outstanding employees at all levels of the organization who bring our vision and mission to life. The Board and Management acknowledge the contribution of all employees for their hard work and dedication, which has made Summit a company we can all feel proud of.

Taking our bank to the next level would not be possible without the thousands of loyal customers who entrust us with their business dreams and plans and the shareholders who see wisdom investing in our dream of becoming the premiere bank for small business, ethnic, and international business. To all of you, on behalf of the Board of Directors, we express our infinite gratitude, and we look forward to serving you in the coming year.

Sincerely,

PIN PIN CHAU

Chief Executive Officer,
Summit Bank Corporation
The Summit National Bank

CARL L. PATRICK, JR.

Chairman,
Summit Bank Corporation



PIN PIN CHAU
Chief Executive Officer
Summit Bank Corporation
The Summit National Bank

Summit is not only blessed with a cohesive executive management team but with officers and employees at all levels of the organization who understand our business strategy. We share a common goal of taking Summit to the next level—to be a premier bank for owner-managed businesses, for international trade services and for various ethnic communities. We know how to leverage diversity and cultural sensitivity to create a vibrant work environment, a welcoming atmosphere of service, and a profitable enterprise.

HAVING IT TOGETHER TO TAKE US TO THE NEXT LEVEL

By tirelessly assessing, building, refining and strengthening our infrastructure at every juncture of our growth, we ensure that we have the human resources capacity, the technological support, the physical facilities and financial integrity to sustain us through the current stage and enable us to reach the next step in our strategic plan. 2004 was a year we expended significant energy and financial resources to building infrastructure, which we will work hard this year to ensure the company reaps the benefits by leveraging on these resources.

SUMMIT PEOPLE RISE TO CHALLENGES AND WE ARE BETTER FOR OUR SHARED EXPERIENCES

Whether they grew their expertise with us or joined us because we need their expertise, Summit people work together to provide solutions as working teams.

"WE LIKE TO HIRE PEOPLE WHO HAVE A DESIRE TO SATISFY THEIR PERSONAL HIGH STANDARDS, ARE SELF-MOTIVATED AND ARE DRIVEN BY THEIR OWN INTEGRITY." Dianne McLeod,
VP, Director, Human Resources

In 2004, we mobilized the entire bank, and a special team worked to refine our performance evaluation process. The new process encourages communication between the supervisors and the supervised and provides evaluation on quantifiable metrics as well as attributes important and unique to Summit. This allows for our beneficial diversity, but still provides definable standards for all. In addition, we implemented a new time keeping system, and strengthened our fiduciary oversight of the employee benefits plan.

MAKING SURE OUR FRONT LINE IS SUPPORTED

During the past year, a work team reviewed and assessed our core operating system, comparing current and future needs with available technology that could satisfy these needs — providing the means to take us to the next level. In the end we decided to enhance the existing system, resulting in a more cost effective solution.

"THE UPCOMING ENHANCEMENTS OF OUR CORE PROCESSING CAPABILITY AND THE RELENTLESS DEDICATION OF THE BACK OFFICE STAFF ENABLE US TO FOCUS ON OUR FIRST PRIORITY OF



STRATEGY IS ONLY AN ABSTRACTION... UNLESS BROUGHT TO LIFE BY EXCELLENCE IN EXECUTION

PROVIDING THE BRANCHES EXCELLENT SUPPORT TO SERVE OUR CUSTOMERS.” Sue Brown, VP, Manager Deposit Operations

Working closely with the Information Technology (IT) area Deposit Operations will implement these enhancements to our core processor in 2005 that will improve efficiency throughout the bank. We engaged professional assistance to evaluate our network security and efficiency, and the IT staff was quick to make improvements that benefit us now and in the future.

“DEPLOYING NEW TECHNOLOGIES HAS ENABLED US TO REDUCE COSTS AND STREAMLINE THE EFFICIENCIES OF OUR SUPPORT SYSTEMS, WHICH HELP POSITION SUMMIT FOR THE NEXT LEVEL OF GROWTH.” Tim Henson, AVP, Manager, Information Technology

Additional staff was added in 2004 to accommodate business growth and to ensure timely response to technical issues. IT has also been instrumental in the migration to Summit’s new international trade finance system, BankTouch Trade.

In addition to promoting our unique brand position and support for products and promotion for the retail branches, marketing

also provided significant support to corporate investor relations in 2004.

“WHETHER INTRODUCING A NEW BANK PRODUCT TO THE SMALL BUSINESS COMMUNITY, COMMUNICATING THE CORPORATE MESSAGE TO THE INVESTMENT COMMUNITY, ATTENDING A NETWORKING EVENT, OR REACHING OUT TO VOLUNTEER IN OUR LOCAL COMMUNITIES, THE MOST COMMON REACTION I HEAR IS “WOW, WHAT A DYNAMIC PLACE!” I BELIEVE THE SENSE OF GRATIFICATION THAT THIS REACTION BRINGS IS WHAT DRIVES US TO THE NEXT LEVEL.” Dan Johnson, Director, Marketing

A strong investor initiative will continue to build in 2005 and attention to commercial and international product offerings will be the new focus.

HAVING IT ALL—PROFITABILITY AND FINANCIAL INTEGRITY

Summit has always valued financial discipline and integrity. With the anticipated compliance with the Sarbanes Oxley Act section 404, we redoubled our efforts in 2004, and continuing into



DAVID YU
President, *Summit Bank Corporation*
Chairman, *The Summit National Bank*

We have the lion's share of Atlanta's ethnic banking market because we were the first to answer the ethnic communities' needs. With the opening of our Shanghai Representative Office, Summit is the first and only bank based in Georgia that provides on location service in China for our import and export clients. We dare to think out of the box, provided the risk/reward trade-off clearly supports our venturing out to the next level.

2005, to document, evaluate, improve and monitor our internal control process. Each area of the bank has been challenged to go beyond the everyday to a wide and deeper perspective on internal control and risk management.

"IT IS EXCITING TO BE AT THE FINANCIAL AXIS OF AN INTEGRATED ORGANIZATION, TO MANAGE THE DEPARTMENT THAT BRINGS IT ALL TOGETHER AS ALL TRANSACTIONS FEED INTO THE GENERAL LEDGER FROM WHICH FINANCIAL AND REGULATORY REPORTS ARE PRODUCED. INTERNAL CONTROL IN EVERY AREA OF THE BANK IS CRITICAL TO THE ACCURACY OF FINANCIAL REPORTS."
Suzanne Long, VP Controller

EXTENDING OUR REACH IN INTERNATIONAL TRADE SERVICES

In 2004 Summit moved forward with the conversion of our international operating system to a web-based system developed by the bank in conjunction with a technology vendor. The implementation of BankTouch Trade makes it possible to complete international trade transactions more efficiently and conveniently than ever before. This system is fully integrated

to SWIFT (the internationally recognized payment and communication system) and provides a secure environment to effect international letters of credit and collections.

"ALL OF US IN THE INTERNATIONAL DEPARTMENT SHOULD FEEL RIGHTFULLY PROUD THAT OUR TIRELESS MARKETING EFFORT AND PROFESSIONAL EXPERTISE HAVE GIVEN US A STRONG FORWARD MOMENTUM." DeLynn Howard, VP, Manager, International Operations

International fee income increased for the third year in 2004 and letters of credit and bankers acceptances outstanding doubled in volume.

"AS A LENDER, IT IS MY GOAL TO MAKE THE LENDING PROCESS SIMPLE WHILE MAINTAINING PROFESSIONALISM, INTEGRITY AND TRUST. BY KNOWING MY CUSTOMER'S BUSINESS AND ITS UNIQUE FINANCIAL NEEDS, I CAN HELP IN MOVING HIS COMPANY FORWARD. LENDING TO IMPORTERS AND EXPORTERS REQUIRES THE EXPERTISE TO MONITOR SPECIAL KINDS OF RISKS; OUR INTERNATIONAL DEPARTMENT, THROUGH ITS COLLECTIVE



MARKETING IS BUT AN IDEA... UNLESS TRANSFORMED INTO OPPORTUNITY BY PROMPT ACTION

KNOWLEDGE, IS UP TO THE TASK. IN 2004 WE DOUBLED OUR TRADE FINANCE PORTFOLIO OUTSTANDINGS. WE MAKE IT HAPPEN!" Pamela Van Fleet, VP, Commercial & International Lending

With growing trade between China and the United States, Summit expanded our international reach by opening a representative office in Shanghai. The Shanghai office facilitates the trade service needs of our import and export clients, from performing site visits to handholding through the business process in China. The office expands our network of Chinese correspondent banks that service private sector Chinese exporters, thereby increasing Summit's opportunity to facilitate fee-based payments on their behalf.

In 2005, we hope to continue to leverage on our personnel, technology and facilities to further improve our international trade income.

EXPANDING OUR PRESENCE IN THE ASIAN MARKET

In 2004 we relocated our San Jose branch to a more prominent location. We built a new branch in Duluth, an affluent suburb of

Atlanta. This branch is strategically located in an area of growth in Asian businesses and residences.

"BUILDING THREE BRANCHES IN 18 MONTHS, ATTENDING TO ENDLESS DETAILS TO ENSURE ALL OF THEM ARE DISTINCTIVELY SUMMIT IN LOOK AND FEEL, SO AS TO PROVIDE A PLEASING AND FUNCTIONAL ENVIRONMENT FOR OUR CUSTOMERS WAS WORTH ALL THE HARD WORK." Marybeth Cabe, VP, Branch Administration

Our Park Village Branch means Summit would be the first bank with Korean and Chinese focus in this part of town.

"AS OUR PARK VILLAGE BRANCH OPENS, WE ARE EXCITED ABOUT OUR OPPORTUNITY TO GROW WITH THE ASIAN BUSINESSES IN THE NEW COMMUNITY FOR ASIANS IN DULUTH." Nancy Fu, VP, Branch Manager, Park Village.

WORKING TOGETHER TO EXPAND OUR PRODUCT OFFERING

With the growing importance of the Euro dollar, our European clients and our international clients are looking to Summit for



H. A. DUDLEY, JR
Executive Vice President
Summit Bank Corporation
The Summit National Bank

Summit's credit risk management reached new heights with the implementation of a credit administration process that follows a loan through underwriting, pre-booking due diligence, documentation, post booking monitoring, internal review and independent loan evaluation. The loan portfolio is constantly stress-tested to ensure that it endures the ups and downs of the economic cycle. This is part of the overall effort to understand, quantify, manage and monitor risks throughout the enterprise.

their Euro dollar solution. The Private Banking and International areas are working together evaluating possibilities of offering Euro dollar deposit accounts to these clients without risking Summit to currency volatilities. We intend to roll out this product later this year.

"MARKETING FOR PRIVATE BANKING IS SUCH AN EXHILARATING ENDEAVOR! BRINGING OUR CUSTOMERS THE ULTIMATE SERVICE — HAND HOLDING NEWCOMERS, GUIDING THEM THROUGH THE UNFAMILIAR TERRITORIES OF U.S. LIFE, GAINING IN-DEPTH KNOWLEDGE OF SOPHISTICATED PRODUCTS TO MEET THEIR NEEDS ARE PART OF THE EXCITEMENT" Heidi Hein, VP Manager, Private Banking

TAKING CREDIT ADMINISTRATION TO THE NEXT LEVEL

Summit has benefited from a full year of arduous focus on credit risk management, but the effort will continue with refinement of our credit policy and underwriting process to articulate industry-specific criteria. Continued improvement in loan portfolio analysis in the areas of MIS and reporting will further enhance our management of credit risks.

"KNOWING OUR CUSTOMER, PROVEN CREDIT RISK MANAGEMENT TECHNIQUES, THE EFFICIENT USE OF TECHNOLOGY, AND STRONG TEAMWORK ALLOW US TO MAINTAIN QUALITY PORTFOLIO GROWTH FOR SHAREHOLDERS WHILE NOT LOSING SIGHT OF OUR CUSTOMERS NEEDS." Tony Finelli, VP, Manager, Credit Administration

EFFECTIVELY MANAGING RISK

As Summit continues to grow, the need for an integrated approach to managing risk has become increasingly necessary. Realizing this need, Summit implemented a formal Risk Management Department.

"OUR SHIFT TO AN ENTERPRISE WIDE APPROACH TO RISK MANAGEMENT ENABLES US TO PROACTIVELY RESPOND TO THE RAPIDLY EVOLVING STATE OF CORPORATE GOVERNANCE." Michael Keller, VP, Manager, Risk Management

As the risk management process continues to evolve, the awareness of the importance of managing risk is evident throughout all levels the entire organization.



GROWTH IS MERELY SIZE... UNLESS HARNESSSED TO PROFITABILTY WITH PRUDENT MANAGEMENT OF RISKS

TWO LONG HARD YEARS OF DEVELOPING BANKTOUCH TRADE HAS RESULTED IN A SYSTEM THAT PROVIDES UN-COMPROMISED ACCOUNTING INTEGRITY AND AUDIT TRAIL THAT HAS REALLY PAID OFF. Elsa Kuo, VP, Assistant Manager, International Operations

MORE ROBUST COMPLIANCE & INTERNAL CONTROL

Crossing the half billion-dollar mark has made it even more imperative to maintain strict regulatory compliance in terms of customer records and bank operations. Summit's compliance area has instituted a process of systematic checks and balances to ensure that all areas of the bank are in strict compliance with the regulatory agencies that govern their area.

GETTING TO KNOW OUR CUSTOMERS AND THEIR BUSINESSES AND ENSURING THAT ALL OF US ON THE FRONT LINE HAVE THE KNOWLEDGE TO COMPLY WITH POLICIES AND PROCEDURES WHILE MAINTAINING STRONG RELATIONSHIPS WITH OUR CUSTOMERS ARE EQUALLY IMPORTANT AS CANVASSING FOR NEW BUSINESS. Jane Trinkle, VP, Branch Manager, Vinings

Like most public companies, Summit has concentrated on internal control documentation for all of its processes, and this is an ongoing project. This process continues to enrich the organization in identifying and strengthening not only our internal controls, but also improved synergies between process owners to solidify a more effective organization.

"BY WORKING TOGETHER AS A UNIFIED TEAM, NO SINGLE ELEMENT OF STRENGTHENING OUR INTERNAL CONTROL SYSTEMS IS SACRIFICED FOR ANOTHER, MAKING FOR A SOUND INFRA-STRUCTURE TO SUPPORT OUR FUTURE GROWTH." Debbie Ledford, VP, Internal Controls.

Summit is proud of the banking expertise, cohesive teamwork and depth of commitment that is the essence of our entire staff here at Summit. Our people are truly our greatest strength. As we move forward, we are confident that we have a knowledgeable team and a solidly built infrastructure we need to take advantage of the business opportunities that lie ahead.

DIRECTORS AND OFFICERS



PICTURED FROM LEFT TO RIGHT, TOP TO BOTTOM:

CARL L. PATRICK, JR.

Director, Carmike Cinemas, Inc.
Chairman, Summit Bank Corporation;
Vice Chairman,
The Summit National Bank

GERALD L. ALLISON

Chief Executive Officer & Chairman,
AJC International, Inc.;
Vice Chairman,
Summit Bank Corporation

PIN PIN CHAU

Chief Executive Officer,
Summit Bank Corporation;
President & Chief Executive Officer,
The Summit National Bank

DAVID YU

President, Summit Bank Corporation;
Chairman, The Summit National Bank

AARON I. ALEMBIK

Retired, Attorney at Law

PAUL C.Y. CHU

Chairman, Novax Group

PETER M. COHEN

President, IF Consulting Services, LLC.

JOSE I. GONZALEZ

Executive Director, Hemisphere Inc.

JACK N. HALPERN

President, Halpern Enterprises, Inc.

DONALD R. HARKLEROAD

President, The Bristol Company

SHAFIK H. LADHA

Chairman, Ladha Holdings, Inc.

JAMES S. LAI

Ph.D., Professor, Emeritus,
Georgia Institute of Technology;
Owner, Pavtec Engineering Technology, Inc.

SION NYEN LAI

President, Fulton Beverage Center, Inc.

SHIH CHIEN LO

President, Lo Brothers Associates

NACK PAK

President, Government Loan
Service Corporation

W. CLAYTON SPARROW, JR.

Partner, Seyfarth Shaw

HOWARD H.L. TAI

Private Investor

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

PERFORMANCE OVERVIEW FOR 2004

Summit Bank Corporation (the "Company" or "Summit") had a successful 2004 with record net earnings, asset growth, branch network expansion, and strengthened infrastructure. Net interest income was strong compared to results in 2003, partially a benefit of a rising rate environment, as well as loan growth early in the year. While loan growth slowed in the second half of the year, total asset growth for the year was still strong at 15%. The Company continued to expand its branch network with the addition of a limited service branch in the South Atlanta area to service the deposit needs of existing loan customers in that vicinity. The San Jose California office was relocated to a much more visible location in the same market. Construction also started on a new location in the North Atlanta market which is expected to open in the first quarter of 2005. Staffing increased to facilitate improvement in the risk management and compliance areas of operations providing a stronger infrastructure to support future growth. During 2004, the Company's market capitalization increased 60% from December 31, 2003, due, in part, to higher visibility in the investment community. The Company's stock price was trading at 2.8 times book value at the end of the year.

Net income reported by the Company in 2004 was \$5,153,000, representing a 7% increase over results of \$4,822,000 last year. The improvement was largely due to increased net interest income resulting from earning asset growth, primarily loans, outpacing higher funding costs. Earnings per share for 2004 were \$.91, diluted, compared to \$.85, diluted, for 2003. Despite loan growth, the provision for loan losses was lower in 2004 than in 2003, due mainly to the consistently strong quality of the loan portfolio and a flat net charge-off rate from year to year. Overhead expenses increased 12.5% in 2004 compared to the prior year mainly as a result of the branch network growth and other increased personnel costs. One factor affecting increased noninterest expenses was a \$350,000 pre-tax charge recorded in December 2004 for a customer-related fraud loss. This charge represented 23% of the increase in overhead in 2004. Consequently the operating efficiency ratio was also higher in 2004 at 62% compared to 60% in 2003.

In February 2004, the Company declared a 3 for 2 stock split in the form of a 50% stock dividend increasing common shares outstanding to 5,652,604. In November 2002, the Company declared a 2 for 1 stock split in the form of a 100% stock dividend. Earnings per share throughout this discussion have been restated for all current and prior periods to reflect the impact of these stock dividends.

The Company also reached a milestone in 2004, surpassing the half a billion dollar mark in total assets, ending the year with \$548 million compared to \$477 million in total assets at December 31, 2003, an increase of 15%. The growth was split between the loan portfolio and the investment security portfolio, with much of the loan growth coming in the first part of the year. Total loans grew 7% to \$339 million in 2004, primarily consisting of growth in commercial loans. This growth is slower than the growth realized in the past few years, because of higher than historical attrition and early loan pay-offs as opposed to fewer loan originations. The prime rate increased five times in 2004, and customers prefer to lock in fixed interest rates when rates are rising. However, throughout the year, Summit concentrated on maintaining a high quality, fairly priced, primarily floating rate loan portfolio. The investment portfolio, including other investments that consisted mainly of Federal Reserve Bank and Federal Home Loan Bank stock, increased 21% to \$152 million in 2004 as funding from deposit growth late in the year was invested temporarily pending increased loan growth. Deposits grew 18% during 2004 to a total of \$434 million, although approximately \$20 million of this growth was due to temporary deposits placed in commercial money market accounts late in December. Most of these funds were invested in short-term federal funds sold since it is anticipated that they will only be on deposit for a short time. Average noninterest-bearing deposit accounts remained strong at 22% of total average deposits.

At the beginning of 2004, the Company had \$75 million in interest rate swap contracts in place to hedge the variability of interest income on loans caused by a primarily floating rate loan portfolio tied to the prime rate. As interest rates rose during the year, interest income on loans increased, and the need for these instruments declined. In March 2004, the Company terminated a \$25 million interest rate swap contract that had a relatively low spread to the prime rate. In October, another \$25 million interest rate swap contract matured and was not replaced. As a result, at December 31, 2004, the Company had in place one \$25 million interest rate swap contract that matures in 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The return on average assets was 1.03% in 2004 compared to 1.11% in 2003. This slight decline is primarily due to increased overhead costs. Despite increased overhead, the real dollar increase in earnings translated into an improvement in the return on average shareholders' equity of 15.3% in 2004 from 15.1% in 2003. Average earning assets increased 17% to \$468 million at December 31, 2004, due to a 16% average total loan growth and an 18% increase in average investment securities. This average asset growth is consistent with the rate experienced in 2003. The equity to assets ratio declined to 6.3% at December 31, 2004 from 6.9% at December 31, 2003, as assets grew at a faster pace than shareholders' equity due in part to a decline in other accumulated comprehensive income, as well to the influx of the temporary deposits at the end of the year. Other accumulated comprehensive income includes unrealized gains and/or losses on investment securities and interest rate swaps.

FORWARD LOOKING STATEMENTS

Management's discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are not historical facts and include expression about our confidence and strategies, as well as our expectations about new and existing programs and products, relationships, opportunities, technology and market conditions. These statements may be identified by such forward-looking terminology as "expect", "believe", "anticipate", "may", "will", or similar statements or variations of such terms. Such forward-looking statements involve certain risks and uncertainties, including, but not limited to, the direction of interest rates, continued levels of loan quality, origination volume, continued relationships with major customers and referrals for sources of loans, the effect of economic conditions and regulatory barriers; and the effect of tax and legal structures. Actual results may differ materially from such forward-looking statements. Summit assumes no obligation for updating any such forward-looking statements at any time.

CRITICAL ACCOUNTING POLICIES

In reviewing and understanding financial information for the Company, you are encouraged to read and understand the significant accounting policies which are used in preparing the consolidated financial statements of the Company. These policies are described in Note 1 to the consolidated financial statements which are presented elsewhere in this annual report. Of these policies, Management believes that the accounting for the allowance for loan losses is the most critical. This is because the amount of the allowance is established based on a variety of subjective factors. The allowance is replenished by means of a provision for loan losses that is charged against the Company's earnings. As a result, earnings will vary based, in part, on subjective judgments made by Management in this area.

Losses on loans result from a broad range of causes from borrower-specific problems, to industry issues, to the impact of the economic environment. The identification of these factors that lead to default or non-performance under a borrower loan agreement and the estimation of loss in these situations is very subjective. In addition, a dramatic change in the performance of one or a small number of borrowers can have a significant impact on the estimate of losses. Certain economic factors could have a material impact on the analysis of the allowance for loan losses. The depth and duration of any economic recession could impact the credit risk associated with the loan portfolio. Another factor in the analysis is a consideration of concentrations of credit within specific industry sectors. Management monitors loan concentrations in any one industry in relation to the Bank's capital and has established limits to mitigate risks. At December 31, 2004, the Bank's largest concentrations are retail trade loans: convenience stores, restaurants, food stores, and liquor stores, which totaled approximately \$125 million, or 285%, of capital; commercial real estate loans which totaled approximately \$119 million, or 271%, of capital; and loans to service providers: financial, health, hotel and dry cleaners, which totaled approximately \$44 million, or 100%, of capital. These concentrations are all within established policy limits. Management has not identified any specific industry weakness that may negatively impact the loan portfolio.

As described further below, Management has implemented a process that has been applied consistently to systematically consider the many variables that impact the estimation of the allowance for loan losses. See "Allowance and Provision for Loan Losses."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FOURTH QUARTER 2004

Net income for the fourth quarter of 2004 was \$1,204,000, a decrease of 12% from \$1,362,000 for the same period in 2003. The decrease was primarily attributed to a customer-related fraud loss in the current period that totaled \$231,000, net of taxes. The net interest margin for the fourth quarter of 2004 was 4.0%, down from 4.2% for the same period in the prior year. This decline was due, in part, to a lower yielding mix of earning assets. The loan portfolio yield in 2004 reflected a thinning spread to prime rate on the primarily floating rate portfolio, while the weighted average yield on fixed rate loans has also declined, due to attrition of fixed rate loans originated in a higher interest rate environment. However, much of the impact of the lower yielding loans was mitigated by the increase in volume, as well as the prime rate increases. Additionally affecting the net interest rate margin, the cost of funds increased in the fourth quarter of this year to 1.89% from 1.77% for the same period last year. This was mainly due to rising short-term interest rates during the year. Net interest income increased \$272,000 in fourth quarter 2004 compared to fourth quarter 2003.

Noninterest income decreased \$48,000 in fourth quarter 2004 compared to the prior period due to security gains realized on sales in 2003. Noninterest expenses increased \$644,000 in the fourth quarter of 2004 from the same period last year. Part of this increase was due to the fraud loss mentioned above, which was \$350,000, pre-tax. Other operating expenses increased primarily due to higher salary and benefits costs from branch expansion and improved infrastructure.

During the recent quarter, total assets grew \$47 million, or 9.4% from September 30, 2004. At the end of the year, deposits totaling approximately \$20 million were temporarily placed in the Bank. These deposits were invested in short-term instruments since we anticipate that they will only be retained a few months. In addition to the temporary deposits, the Bank leveraged the balance sheet \$20 million in November 2004 by increasing wholesale repurchase agreement funding and using the funds to purchase investment securities to increase interest income by the amount of the spread on the transaction, approximately 2% in the fourth quarter. Basic and diluted net earnings per share for the fourth quarter were \$.22 and \$.24 per share for 2004 and 2003, respectively, adjusted for the February 2004 stock dividend. The Company paid cash dividends of \$.10 and \$.087 for the fourth quarters of 2004 and 2003, respectively, also restated for the stock dividend.

THE INCOME STATEMENT

The Company reported record earnings in 2004 of \$5,153,000, increasing 7% over the prior year and realizing a strong return on average equity of 15.3% for its shareholders. With the economy strengthening enough for the Federal Reserve Bank to tighten its policy with five interest rate raises during the year, the Company benefited from the primarily floating rate loan portfolio and lagging repricing deposit base. The Bank has remained focused on servicing its niche markets of small business banking, ethnic banking and international trade services. The detail below provides insight into how that was accomplished. Because such a large part of the improvement in 2004 earnings over 2003 was due to the increase in net interest income which, in turn, was due to the strong growth of interest-earning assets, further analysis of the changes in the balance sheet and corresponding rates is detailed first in the discussion of the income statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CHANGES IN AVERAGE BALANCE SHEET DATA AND RATES

The following table sets forth information with respect to average balance sheet data and related interest income, expense, yields and rates for the years ended December 31, 2004, 2003 and 2002.

| (dollars in thousands) | 2004 | | | 2003 | | | 2002 | | |
|---|---------------------|--------------------|------------------|---------------------|--------------------|------------------|---------------------|--------------------|------------------|
| | Average Balances | Income/ Expense | Yields/ Rates | Average Balances | Income/ Expense | Yields/ Rates | Average Balances | Income/ Expense | Yields/ Rates |
| Assets | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Loans ⁽¹⁾ | \$330,531 | \$21,016 | 6.36% | \$284,096 | \$18,395 | 6.47% | \$241,789 | \$16,765 | 6.93% |
| Investment securities | 135,430 | 5,643 | 4.17% | 115,117 | 5,121 | 4.45% | 97,289 | 5,060 | 5.20% |
| Federal funds sold | 1,874 | 24 | 1.28% | 2,337 | 26 | 1.11% | 4,129 | 68 | 1.65% |
| Interest-bearing deposits with other banks | 456 | 7 | 1.54% | 380 | 6 | 1.58% | 388 | 8 | .21% |
| Total interest-earning assets | 468,291 | 26,690 | 5.91% | 401,930 | 23,548 | 5.86% | 343,595 | 21,901 | 6.37% |
| Noninterest-earning assets: | | | | | | | | | |
| Cash and due from banks | 16,671 | | | 15,668 | | | 12,886 | | |
| Premises and equipment, net | 4,009 | | | 3,803 | | | 3,432 | | |
| Allowance for loan losses | (4,419) | | | (3,713) | | | (3,369) | | |
| Other assets | 17,340 | | | 15,368 | | | 14,748 | | |
| Total noninterest-earning assets | 33,601 | | | 31,126 | | | 27,697 | | |
| Total assets | \$501,892 | | | \$433,056 | | | \$371,292 | | |
| Liabilities and Stockholders' Equity | | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Interest-bearing deposits: | | | | | | | | | |
| NOW accounts | \$ 19,071 | \$ 21 | .11% | \$ 17,274 | \$ 28 | .16% | \$ 16,493 | \$ 70 | .42% |
| Money market accounts | 53,652 | 357 | .67% | 56,792 | 411 | .72% | 46,814 | 609 | 1.30% |
| Savings deposits | 14,121 | 35 | .25% | 11,951 | 45 | .38% | 10,740 | 75 | .70% |
| Time deposits | 221,388 | 6,210 | 2.81% | 183,347 | 5,776 | 3.15% | 166,867 | 6,393 | 3.83% |
| Total interest-bearing deposits | 308,232 | 6,623 | 2.15% | 269,364 | 6,260 | 2.32% | 240,914 | 7,147 | 2.97% |
| Other interest-bearing liabilities: | | | | | | | | | |
| Federal funds purchased | 3,960 | 67 | 1.69% | 3,939 | 58 | 1.47% | 2,272 | 41 | 1.80% |
| Federal Home Loan Bank advances | 25,000 | 636 | 2.54% | 24,260 | 516 | 2.13% | 19,137 | 724 | 3.78% |
| Short-term borrowings | 28,462 | 366 | 1.29% | 17,805 | 178 | 1.00% | 10,996 | 187 | 1.78% |
| Long-term debt | 12,000 | 568 | 4.73% | 3,058 | 133 | 4.35% | | | |
| Total interest-bearing liabilities | 377,654 | 8,260 | 2.19% | 318,426 | 7,145 | 2.24% | 273,319 | 8,099 | 2.96% |
| Noninterest-bearing liabilities and stockholders' equity: | | | | | | | | | |
| Noninterest-bearing demand deposits | 88,210 | | | 80,076 | | | 66,875 | | |
| Other liabilities | 2,323 | | | 2,611 | | | 2,884 | | |
| Stockholders' equity | 33,705 | | | 31,943 | | | 28,214 | | |
| Total noninterest-bearing liabilities and stockholders' equity | 124,238 | | | 114,630 | | | 97,973 | | |
| Total liabilities and stockholders' equity | \$501,892 | | | \$433,056 | | | \$371,292 | | |
| Interest rate spread | | | 3.72% | | | 3.62% | | | 3.44% |
| Net interest income | | \$18,430 | | | \$16,403 | | | \$13,802 | |
| Net interest margin ⁽²⁾ | | | 3.94% | | | 4.08% | | | 4.02% |

(1) Average loans include non-performing loans. Interest on loans includes loan fees of \$856,000 in 2004, \$811,000 in 2003, and \$807,000 in 2002.

(2) Net interest margin is net interest income divided by average total interest-earning assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Balances disclosed in the preceding table are daily average balances. The table below details the components of the changes in net interest income for the last two years. For each major category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes due to average volumes and changes due to rates. The change in interest income and expense due to both rate and volume has been allocated to the volume and rate components in proportion to the relationship of the dollar amounts of the absolute change in each.

| (In thousands) | 2004 Compared with 2003 Due to Changes in | | | 2003 Compared with 2002 Due to Changes in | | |
|--|--|-----------------|----------------------------|--|-----------------|----------------------------|
| | Average Volume | Average Rate | Net Increase (Decrease) | Average Volume | Average Rate | Net Increase (Decrease) |
| Interest income | | | | | | |
| Loans | \$2,947 | \$(326) | \$2,621 | \$2,621 | \$ (991) | \$1,630 |
| Investment securities | 814 | (292) | 522 | 290 | (229) | 61 |
| Federal funds sold | (8) | 6 | (2) | (24) | (18) | (42) |
| Interest-bearing deposits with other banks | 1 | – | 1 | – | (2) | (2) |
| Total interest income | 3,754 | (612) | 3,142 | 2,887 | (1,240) | 1,647 |
| Interest expense | | | | | | |
| NOW accounts | 3 | (10) | (7) | 3 | (45) | (42) |
| Money market accounts | (22) | (32) | (54) | 183 | (381) | (198) |
| Savings deposits | 11 | (21) | (10) | 10 | (40) | (30) |
| Time deposits | 920 | (486) | 434 | 772 | (1,389) | (617) |
| Federal funds purchased | – | 9 | 9 | 23 | (6) | 17 |
| Federal Home Loan Bank advances | 16 | 104 | 120 | 327 | (535) | (208) |
| Short-term borrowings | 127 | 61 | 188 | (27) | 18 | (9) |
| Long-term debt | 422 | 13 | 435 | 133 | – | 133 |
| Total interest expense | 1,477 | (362) | 1,115 | 1,424 | (2,378) | (954) |
| Change in net interest income | \$2,277 | \$(250) | \$2,027 | \$1,463 | \$ 1,138 | \$2,601 |

NET INTEREST INCOME

Net interest income, the primary source of revenue for the Company, is a function of the yield earned on interest-earning assets, such as loans and investments, and the rate paid on interest-bearing liabilities, such as deposits and borrowed funds. Changes in net interest income from period to period reflect the increases or decreases in average interest-earning assets, average interest-bearing liabilities and the interest rate spread which is affected by the degree of mismatch in maturity and repricing characteristics of the Company's interest-earning assets and interest-bearing liabilities.

2004 COMPARED TO 2003

The largest dollar impact to net interest income in 2004 was the growth in the loan portfolio. Although from period-end to period-end the increase in total loans reflected a 7% growth rate, average loans during the year grew 16% since loan growth early in the year was very strong. Interest income on loans increased \$2.9 million as a result of this growth. However, even though the prime rate increased during 2004, the yield on loans was lower this year compared to last year. While 74% of the loans were tied to prime, the spread to prime on new loans originated was thinner. The weighted average interest rate on the remaining fixed rate loans actually declined this year by 24 basis points, largely due to attrition of loans originated in a higher interest rate environment. Consequently, there was a \$326,000 decline in loan interest income due to lower yields offsetting the \$2.9 million increase due to volume. Additionally, the investment portfolio yield has cycled downward this year compared to 2003 as most of the purchases were made early in the year at lower rates than those of the securities, primarily mortgage-backed securities, that paid down this year. In other words, the reinvestment rate declined this year. So, like the loan portfolio, increases in interest income on investment securities due to growth in volume were offset somewhat by lower yields. The shift in the latter part of the year from loan growth to investment

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

security growth has resulted in pressure on the net interest margin, although this was mitigated in part by the prime rate increases. The net interest margin for 2004 was 3.94% compared to 4.08% last year. In total, average interest-earning assets increased \$66 million during the year, thus increasing interest income due to volume by \$3.8 million. The net impact to interest income in 2004 due to changes in both volume and rates was an increase of \$3.1 million over interest income in 2003.

Another factor affecting interest income on loans is the change in the interest rate swap contracts. A critical tool of the Bank's asset and liability management is the use of interest rate swaps to hedge against wide movements in interest rates that could negatively impact net interest income. An interest rate swap involves a financial transaction whereby the Bank enters into an agreement to pay a floating or fixed rate of interest on a notional amount represented by a block of assets or liabilities. In return, the Bank will receive, or be paid, a fixed or floating rate of interest. All of the Bank's interest rate swap transactions in place in 2004 provided for a fixed yield in exchange for paying a floating rate. During 2004, the interest rate swap contracts contributed \$991,000 to interest income compared to \$1,050,000 in 2003. As the prime rate increased in 2004, the need for these instruments declined, and at December 31, 2004, there was only one remaining swap contract in place that matures in 2008.

Offsetting some of the increase in interest income in 2004 was an increase in interest expense due primarily to a 21% growth in time deposit volume. Due to the lag time in a changing rate environment of repricing maturing time deposits, all of the certificates of deposits that renewed or were opened in the first half of 2004, had lower rates than those of the prior year. Rates on time deposits typically rise slower than lending rates, benefiting the second half of the year as well. Therefore, the impact of increased interest expense on time deposits due to increased volume was largely offset by a lower cost of these funds, so that the net effect was an increase of \$434,000, instead of the full \$920,000 increase due to volume. The cost of long-term funds increased since the Company issued trust preferred securities in September of 2003, and 2004 reflected a complete year of expense. In total, interest expense increased \$1.1 million in 2004 compared to a decrease of \$1 million in the prior year.

In summary, as a result of the growth in interest-earning assets, offset by a growth in interest-bearing instruments, net interest income increased \$2.0 million in 2004 compared to \$2.6 million in 2003.

2003 COMPARED TO 2002

When comparing 2003 with 2002, net interest income increased 19%, or \$2.6 million. Although yields on loans declined as a direct result of the prime rate decline in mid-2003, average loans grew 17% to \$284 million, more than offsetting the rate decline and generating an increase in interest income on loans. Additionally, the downward repricing effect on the loan portfolio was mitigated by the fact that the Bank had one interest rate swap at the beginning of 2003 and entered into two additional interest rate swaps during the year that further hedged a portion of the Bank's floating rate loan portfolio. The combined benefit of the volume increase in total loans and interest rate swaps was \$3.6 million to loan interest income. The investment portfolio reflected a similar effect with growth in volume outpacing a decline in yield during 2003, for an increase in interest income on securities of \$61,000 over 2002. In total, average interest-earning assets increased \$58 million during the year, thus increasing interest income due to volume by \$2.9 million. The net impact to interest income in 2003 was an increase of \$1.6 million over interest income in 2002.

Additionally, there was a significant decline in interest expense in 2003. The cost of certificates of deposit decreased 68 basis points as certificates matured and were reissued at much lower rates than in 2002. Interest expense decreased \$1.4 million due to this rate decline alone. Offsetting a portion of this was an increase in expense due to the growth in certificates of deposit volume of \$16 million. Additionally, money market account rates declined 58 basis points resulting in a decline in interest expense of \$381,000, offset somewhat by volume increases. The Bank also benefited from declines in interest rates on Federal Home Loan Bank advances. In total, interest expense decreased \$954,000 in 2003 compared to 2002.

Therefore, as a result of the growth in interest-earning assets and the decline in rates on interest-bearing deposits, net interest income increased \$2.6 million in 2003 over 2002. The net interest margin also remained a strong 4.08% in 2003 compared to 4.02% in 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NONINTEREST INCOME

The following table presents the principal components of noninterest income for the years ended December 31, 2004, 2003, and 2002.

| (In thousands) | 2004 | 2003 | 2002 |
|--|-----------------------|----------------|----------------|
| Fees from international trade finance services | \$1,322 | \$1,228 | \$1,073 |
| Overdraft charges | 927 | 913 | 860 |
| Service charge income | 633 | 734 | 756 |
| Income from bank-owned life insurance | 437 | 436 | 433 |
| Net gains on sales of investment securities | 143 | 100 | 255 |
| SBA loan servicing fees | 72 | 95 | 97 |
| Gains on interest rate swaps | 13 | — | 475 |
| Other | 381 | 423 | 1,074 |
| Total noninterest income | <u>\$3,928</u> | <u>\$3,929</u> | <u>\$5,023</u> |

2004 COMPARED TO 2003

Noninterest income, in total, was flat in 2004 compared to 2003. Declines in deposit account service charges were offset by improved international fee income. A 22% growth in noninterest-bearing demand deposit accounts at December 31, 2004 compared to December 31, 2003, was primarily reflected in the business checking account products. These products have been a focus of marketing efforts to bring in additional noninterest-bearing deposits. To entice customers to this product, the Bank offered certain free services, with the idea that the benefit of the use of additional free funds more than out-weighed the loss of the service charge income. This has been a successful campaign since average noninterest-bearing demand deposits increased 10% this year. Service charges on deposit accounts have also partially declined as the earnings credit allowance rate for balances on commercial accounts charged through analysis has increased over the past year.

The international department experienced an increase in fee income of 8% in 2004 over income in 2003. Most of this increase was due to increased transaction volume from new business, as well as from existing customers. Net gains on sales of investment securities were up in 2004 at \$143,000 compared to \$100,000 in 2003.

2003 COMPARED TO 2002

Noninterest income decreased \$1.1 million in 2003 compared to 2002 because of certain large items included in the income of the prior year that did not reoccur in 2003. In 2002, the Bank recorded \$663,000 for a settlement related to a loan charge-off associated with the acquisition of a financial institution in 1998. Also in 2002, an unrealized gain of \$380,000 was recorded for the increase in the fair value of an interest rate swap contract. This gain offset a similar unrealized loss recorded in December 2001 on the same instrument. One of the Bank's interest rate swap contracts was also terminated in 2002 resulting in a gain on termination of \$95,000. These three items from 2002, totaled \$1,054,000. Excluding these items, noninterest income increased \$80,000 in 2003 from 2002.

Mitigating a portion of the downturn in noninterest income in 2003 was an increase in international fee income of \$155,000, or 14%. The increase was largely due to a 16% increase in the number of transactions processed by the Bank's international department during 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NONINTEREST EXPENSES

The following table presents the principal components of noninterest expenses for the years ended December 31, 2004, 2003, and 2002.

| (In thousands) | 2004 | 2003 | 2002 |
|---|-----------------|-----------------|-----------------|
| Salaries and employee benefits | \$ 7,161 | \$ 6,528 | \$ 6,308 |
| Net occupancy | 1,375 | 1,139 | 956 |
| Equipment | 1,082 | 941 | 828 |
| Professional services | 705 | 686 | 847 |
| Data/item processing | 517 | 456 | 438 |
| Other losses | 465 | 71 | 387 |
| Marketing and community relations | 388 | 300 | 237 |
| Postage and courier | 361 | 326 | 293 |
| Telephone | 353 | 316 | 275 |
| Insurance | 178 | 151 | 145 |
| Office supplies | 174 | 170 | 141 |
| Directors' fees | 167 | 143 | 139 |
| Travel | 162 | 157 | 114 |
| Other banks' charges | 123 | 117 | 124 |
| Dues and memberships | 112 | 100 | 68 |
| Property and business taxes | 80 | 88 | 83 |
| Expenses on other real estate and repossessions | 13 | 212 | 88 |
| Other | 321 | 310 | 337 |
| Total noninterest expenses | \$13,737 | \$12,211 | \$11,808 |

2004 COMPARED TO 2003

Overhead expenses increased 12.5% in 2004 compared to the prior year. The largest increase was related to personnel costs, as the number of average full-time equivalent employees increased to 125 in 2004 from 114 during 2003. Salaries and benefits costs rose 10% over costs in 2003. This increase was primarily related to branch expansion and additions in the risk management, credit administration and compliance areas of the Bank. These positions have strengthened the infrastructure of the organization in preparation for further growth, whether organic or through acquisition. In 2004, the Bank began its extensive documentation of all processes in order to comply with the internal controls reporting and audit requirements of the Sarbanes Oxley Act by the end of 2005. One full-time position was added to assist in the implementation of this project. The branch expansion included a limited-service facility in the South Atlanta area, a representative office in Shanghai, China for business development, and the relocation of the San Jose branch to a more visible facility. At December 31, 2004, there were 132 full-time equivalent employees with the Company. Increases in staff costs also included normal merit increases and increases in employer-paid employee benefits. Company-paid insurance benefit costs increased \$116,000, or 30%, during 2004 largely due to the additional staff, as well as a 7% increase in actual premiums paid.

Other losses increased \$394,000 in 2004 compared to the prior year due to the previously mentioned customer-related fraud loss totaling \$350,000 in the fourth quarter of 2004. The Company is pursuing recovery, which it believes some is probable, but is uncertain how much of the loss will actually be recovered. Occupancy and equipment expenses increased mainly as a result of the branch expansions. The deposit and loan operational functions in San Jose remained at the original facility, thus there was an increase in lease costs for the additional branch office. The lease for the operations facility expires in 2006, which Management anticipates will produce an opportunity to reduce occupancy costs for this function. In late 2004, the Company also began construction of an additional full-service branch in Gwinnett County, Georgia with the opening slated for early 2005. Several employees were hired for this location in the fourth quarter of 2004 so they would be fully trained when the branch opens.

Offsetting a portion of the increases in noninterest expenses was a decline in costs related to other real estate owned. In 2004, these costs totaled \$13,000 due to one property obtained in a loan foreclosure and still held at December 31, 2004. In 2003, other real estate costs totaled \$212,000 and were associated with another property obtained from a loan foreclosure that was sold in

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

September 2003. The increases in overhead, including the fraud loss, contributed to a higher operating efficiency ratio, measured as noninterest expenses as a percentage of net interest income and noninterest income, in 2004 compared to 2003. In 2004, the ratio was 61.8% compared to 60.4% in 2003.

2003 COMPARED TO 2002

Containment of overhead expenses as the bank grew in 2003 from 2002 was a contributing factor to a successful 2003 year. While a new location was added in California, noninterest expenses increased only 3.4% to \$12.2 million in 2003. The largest increase was related to personnel costs, as the number of average full-time equivalent employees increased to 114 in 2003 from 109 during 2002. The increase in staff was largely due to the new branch that was staffed in the second quarter of 2003, and other support positions in Atlanta, in addition to normal merit increases. At December 31, 2003, there were 115 full-time equivalent employees with the Company. Company-paid insurance benefit costs also increased \$65,000, or 20%, during 2003 as health care costs rose nationwide.

Occupancy and equipment expenses increased mainly as a result of the second branch location in California. Additionally, the Bank invested in new workstation computers throughout all departments in 2003 to upgrade to faster processors and more current operating systems. Professional fees were lower in 2003 compared to the prior year because fees in 2002 included higher loan-related legal fees than 2003 due to collection efforts on one problem loan, as well as one-time consulting fees related to a Board of Directors' meeting.

Other real estate owned costs in 2003 exceeded prior year costs by \$124,000 for a total of \$212,000. These costs were associated with the property from a loan foreclosure that was sold in late 2003. Offsetting some of the increases mentioned was a decline in other operating losses as losses in 2002 included a single loss that totaled \$246,000 related to the write-off of a fraudulent checking account. Losses in 2003 were only \$71,000 for the entire year compared to \$387,000 in 2002. The operating efficiency ratio showed marked improvement in 2003 at 60.4% compared to 63.6% in 2002.

INCOME TAXES

The Company incurred income tax expense of \$2,378,000, \$2,100,000, and \$1,743,000 or approximately 31.6%, 30.3%, and 29.6% of its income before income taxes in 2004, 2003, and 2002, respectively.

THE BALANCE SHEET

The Company reported \$547 million in total assets at December 31, 2004, reflecting a growth of 15% over total assets of \$477 million at December 31, 2003. The growth early in the year was due primarily to loan growth. Balance sheet growth is typically driven by a focus on commercial loan origination as these are the highest yielding earning assets. While loans reflected a growth of 7% from period-end to period-end, average loans grew 16.3% in 2004, compared to average loans last year.

A portion of the asset growth was a result of Management leveraging \$20 million in the fourth quarter 2004 to increase net interest income and several large commercial deposits that were made in December totaling an additional \$20 million. Most of these deposits were temporarily placed in federal funds sold.

As loan growth slowed in the latter part of 2004 and new funding was placed in the investment portfolio, this shift in the earning assets affected the yield and the net interest margin. Deposit growth was steady throughout the year, and the repricing of time deposits was a factor in a lower cost of funds for the year, mitigating some of the lower yield on earning assets.

The following discussion describes changes in the assets, liabilities and stockholders' equity of the Company for the current year and the preceding years in greater detail.

LOAN PORTFOLIO

The Bank's loan portfolio reflected growth during 2004, albeit not at the pace of previous years. Summit's primary lending focus is to provide credit services to small and medium-sized businesses, thus the large commercial loan portfolio. Less emphasis is placed on the generation of consumer loans, although in the process of providing credit services to business owners for assistance in their businesses, personal needs are also addressed. Loans are expected to produce higher yields than investment securities and other

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

interest-earning assets. Thus, the absolute volume of loans and the volume as a percentage of total earning assets are important determinants of the net interest margin. Average loan growth for the year was strong at 16% because most of the growth was in the first half of the year. Consequently, average loans as a percentage of total earning assets in 2004 was consistent with the percentage in 2003. While the spread on the floating rate loans tied to the prime rate narrowed, and the weighted average rate on the fixed rate loans was lower than in 2003, the increase in loan volume and the increases in the prime rate more than offset these factors.

Total loans were \$339 million at December 31, 2004, which represented a 7% increase from the December 31, 2003 total. The increase was the result of \$115 million in gross new loan originations. In 2003, when loan growth during the year was 23%, gross new loan originations were \$122 million, which was not significantly different than this year. While the origination volume remained robust in 2004, the attrition rate on existing loans in 2004 was higher due to early payoffs and customers selling their small businesses. Loans secured by business assets recorded a growth rate of 24%, or \$16 million, in 2004, and represented the majority of the net increase in total loans. Loans secured by real estate represented most of the remainder of portfolio growth. Due to Summit's continued efforts to serve the credit needs of the commercial business market, consumer loans actually declined by 47% during 2004, to \$680,000 at December 31, 2004. Furthermore, the increase in loans was completely reflected in the conventional commercial loan portfolio while the Small Business Administration ("SBA") loan portfolio remained unchanged for the year.

The Company makes an effort to originate loans with rates that fluctuate with the prime lending rate. At year-end 2004, 75% of the total loan portfolio had floating or adjustable rates, up from 72% of the portfolio at the end of 2003. If interest rates continue to rise in the near term, as expected, the Bank is well positioned to benefit from the changing rate environment as loans reprice immediately or, in the case of SBA loans, within 90 days of a prime rate change. The challenge will be to remain competitive yet obtain a fair spread to prime based on the credit worthiness of the customer.

The following table presents the composition of the Company's loan portfolio at the end of each of the five years ended December 31, 2004.

| | 2004 | | 2003 | | 2002 | | 2001 | | 2000 | |
|---|-----------|------------|-----------|------------|-----------|------------|-----------|------------|-----------|------------|
| | Amount | % of Loans | Amount | % of Loans | Amount | % of Loans | Amount | % of Loans | Amount | % of Loans |
| (Dollars in thousands) | | | | | | | | | | |
| Commercial, financial, and agricultural | \$ 82,953 | 24% | \$ 66,727 | 21% | \$ 65,626 | 26% | \$ 60,084 | 28% | \$ 54,142 | 28% |
| Real estate – construction | 10,812 | 3 | 15,569 | 5 | 3,531 | 1 | 1,526 | 1 | 4,718 | 2 |
| Real estate mortgage – primarily commercial | 245,836 | 73 | 234,653 | 74 | 189,318 | 73 | 156,998 | 71 | 129,794 | 69 |
| Installment loans to individuals | 680 | 1 | 1,294 | 1 | 1,301 | 1 | 2,298 | 1 | 3,041 | 2 |
| Less: unearned income | (1,076) | (1) | (1,171) | (1) | (1,053) | (1) | (1,162) | (1) | (1,341) | (1) |
| Total loans, net of unearned income | 339,205 | 100% | 317,072 | 100% | 258,723 | 100% | 219,744 | 100% | 190,354 | 100% |
| Less: allowance for loan losses | (4,549) | | (4,047) | | (3,435) | | (3,234) | | (3,141) | |
| Net loans | \$334,656 | | \$313,025 | | \$255,288 | | \$216,510 | | \$187,213 | |

The following table presents a maturity analysis of the Company's loan portfolio segregated between loans with predetermined interest rates and loans with floating or adjustable rates at December 31, 2004.

| (In thousands) | Loans Maturing | | | |
|--|----------------|------------------|---------------|-----------|
| | 1 Year | Within 1-5 Years | After 5 Years | Total |
| Loans with: | | | | |
| Predetermined interest rates | \$ 9,486 | \$ 64,507 | \$ 11,765 | \$ 85,758 |
| Floating or adjustable rates | 39,214 | 92,937 | 121,296 | 253,447 |
| Total loans | \$48,700 | \$157,444 | \$133,061 | \$339,205 |

ALLOWANCE AND PROVISION FOR LOAN LOSSES

The allowance for loan losses represents a reserve for probable losses in the loan portfolio. The adequacy of the allowance for loan losses is evaluated periodically based on a review of all significant loans, with particular emphasis on impaired, non-accruing, past due, and other loans that Management believes require special attention. The determination of the allowance for loan losses is subjective and considered a critical accounting estimate of the Company.

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When reviewing the allowance for loan losses, it is important to understand to whom the Company lends. The loan portfolio is primarily comprised of loans to small businesses. In particular, the Company has developed lending niches in a number of industries, the most prevalent of which include restaurants, convenience stores, retail merchants, and strip shopping centers. The risk to lending to these types of businesses is that they typically are more vulnerable to changes in economic conditions. The Company has mitigated the risk to these types of borrowers in several ways. First, a large portion of these loans is supported by U.S. Government guarantees obtained from the Small Business Administration. Secondly, the majority of the Company's loans are secured with marketable real estate, and thirdly, the Company performs in-depth economic analyses on these industries in order to remain abreast of current trends and conditions.

The Bank has established a multifaceted methodology to analyze the adequacy of the allowance for loan losses. This methodology includes consideration of the Bank's credit risk rating system, historical charge-offs, loan impairment as defined by Financial Accounting Standards Board ("FASB") Statement No. 114, loss ratios on criticized and classified loans, and finally, adjustments related to various qualitative factors that may change the risk profile of all or portions of the portfolio. The analysis is used to arrive at a recommended allowance for loan losses.

A general allowance for losses is calculated based on estimates of inherent losses which probably exist as of the evaluation date, taking into account the loans as they are impacted by the above factors. The general allowance for losses on problem loans in these categories is based on a review and evaluation of these loans, taking into consideration financial condition and strengths of the borrower, related collateral, cash flows available for debt repayment, and known and expected economic trends and conditions. General loss percentages for the smaller problem loans are determined based upon historical loss experience and regulatory guidelines. For problem loans in excess of \$100,000 and for loans considered impaired, specific allowances are provided in the event that the specific collateral analysis on each impaired loan indicates that probable loss would occur upon liquidation of collateral based on the estimated value of the collateral or for impaired loans that are not collateral dependent if the present value of expected future cash flows are less than the loan balance. In addition to these allocated reserves, the Company has established an unallocated reserve of \$218,000 and \$183,000 at December 31, 2004 and December 31, 2003, respectively. The basis for the unallocated reserve is due to a number of qualitative factors including migration trends in the portfolio, portfolio volume trends, the risk identification process, changes in the outlook for local and regional economic conditions and concentrations of credit.

The provision for loan losses is a charge to income in the current period to replenish the allowance for loan losses and maintain it at a level that Management has determined to be appropriate. The Company's provision for loan losses for 2004 was \$1,090,000, down slightly from \$1,199,000 in 2003 due to the slower growth rate during the second half of the current year. Net charge-offs for the year ended December 31, 2004, at \$588,000, were consistent with that of 2003. Net loan charge-offs in 2004 were .18% of average net loans compared to .21% in 2003 and .38% in 2002. Gross charge-offs in 2004 consisted primarily of commercial loans ranging in size from \$3,000 to \$87,000, as well as a total of approximately \$453,000 representing the unguaranteed portions of 17 SBA loans. Installment loan charge-offs represented \$14,000 of the total gross amount.

Non-performing assets increased significantly to \$2,839,000 at year-end 2004 from \$392,000 at year-end 2003, largely as a result of the addition of \$1.5 million in other real estate owned from a loan foreclosure during the year. This property has been listed in the commercial real estate market, and Management believes the net realizable value from the eventual sale of the property is in excess of the carrying value. Although nonperforming assets at December 31, 2004 were 0.84% of total loans and other real estate, the net exposure of all nonperforming assets is significantly lower. Although nonperforming assets at December 31, 2004 were under 1% of total loans and other real estate, the increase this year was significant to Summit since the average ratio over the past five years has been half the current rate. However, the total loss exposure of all nonperforming assets is significantly lower this year. In addition to the other real estate owned, non-performing assets at the end of 2004 consisted of nine fully guaranteed SBA loans and one commercial loan that was secured with real estate. The commercial loan was subsequently liquidated in 2005. Non-performing assets at December 31, 2003 consisted of five SBA loans for which the guaranteed portions totaled \$336,000. There was no other real estate owned at December 31, 2003. The Company had allocated reserves totaling \$157,000 and \$57,000 for all non-performing loans as of December 31, 2004 and 2003, respectively.

The percentage of loans categorized as criticized or classified (loans rated as special mention, substandard, doubtful or loss) increased this year to 1.53% of total loans at December 31, 2004 compared to 1.34% at December 31, 2003. The total dollar amount

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also increased to \$5.2 million from \$4.2 million. The increase in criticized loans was attributed to the addition of one large commercial real estate credit in 2004 to the special mention category. Classified loans also increased in part because of the conventional commercial real estate loan that was liquidated in early 2005. Total classified assets also included the \$1.5 million in other real estate owned at December 31, 2004. Although the percentage of criticized and classified loans increased, the dollar amount of the increase consisted completely of fully guaranteed SBA loans.

While total delinquent loans increased \$918,000 at the end of 2004 compared to the prior year-end, the increase, as mentioned above, was primarily due to the nonaccrual SBA loans which were fully guaranteed by the SBA. The total amount of delinquent loans up to 89 days past due and still accruing at December 31, 2004 was flat compared to the end of 2003. The percentage of delinquencies to total loans was .57%, up from .32% at December 31, 2003, also due to the increase in nonaccrual loans. Delinquent loans primarily consisted of commercial loans.

Management has strengthened the credit administration and risk management functions by adding resources to enhance the credit review procedures and processes during the past year. This improvement in the infrastructure of the organization will allow the Company to continue its focus on generating high quality loans while providing the talent to concentrate on reducing the impaired and otherwise classified loans in the current portfolio.

The allowance for loan losses was 1.34% of total loans at December 31, 2004 compared to 1.28% at December 31, 2003. The increase was primarily due to the increase in allocated reserves for classified loans. Total allocated reserves increased \$323,000 comparing the balance at December 31, 2004 to December 31, 2003. Additionally, the allowance for loan losses percentage was increased since the ratio of commercial loans secured with business assets compared to loans secured with real estate increased this year from last year. The determination of the allowance for loan losses rests upon Management's judgment about factors affecting loan quality, assumptions about the economy, and other factors; however, Management's judgment is based upon a number of assumptions, which are believed to be reasonable, but which may or may not prove valid. Thus, there can be no assurance that charge-offs in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

The following table represents an analysis of the Company's allowance for loan losses including the provision for loan losses and net loan charge-offs for each of the years in the five years ended December 31, 2004.

| | Years Ended December 31, | | | | |
|--|--------------------------|---------|---------|---------|---------|
| (Dollars in thousands) | 2004 | 2003 | 2002 | 2001 | 2000 |
| Allowance for loan losses at beginning of year | \$4,047 | \$3,435 | \$3,234 | \$3,141 | \$2,525 |
| Charge-offs: | | | | | |
| Commercial, financial, and agricultural | 986 | 748 | 1,050 | 737 | 952 |
| Real estate | 5 | — | — | 204 | 80 |
| Installment loans to individuals | 14 | 22 | 26 | 42 | 9 |
| Total | 1,005 | 770 | 1,076 | 983 | 1,041 |
| Recoveries: | | | | | |
| Commercial, financial, and agricultural | 413 | 176 | 77 | 143 | 263 |
| Real estate | — | — | 70 | 168 | 114 |
| Installment loans to individuals | 4 | 7 | — | 10 | 30 |
| Total | 417 | 183 | 147 | 321 | 407 |
| Net charge-offs | 588 | 587 | 929 | 662 | 634 |
| Provision for loan losses | 1,090 | 1,199 | 1,130 | 755 | 1,250 |
| Allowance for loan losses at end of year | \$4,549 | \$4,047 | \$3,435 | \$3,234 | \$3,141 |
| Allowance for loan losses to | | | | | |
| average loans outstanding | 1.38% | 1.42% | 1.42% | 1.60% | 1.75% |
| Allowance for loan losses to net charge offs | 7.7x | 6.9x | 3.7x | 4.9x | 5.0x |
| Net charge offs to average loans | .18% | .21% | .38% | .33% | .35% |

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The amounts and percentages of such components of the allowance for loan losses at the end of each of the five years ended December 31, 2004 and the percentage of loans in each category to total loans are presented in the table below.

| | 2004 | | | 2003 | | | 2002 | | | 2001 | | | 2000 | | |
|--|----------------------|-------------------|-------------|----------------------|-------------------|-------------|----------------------|-------------------|-------------|----------------------|-------------------|-------------|----------------------|-------------------|-------------|
| | Allow- ance \$ | % of (%) Loans | | Allow- ance \$ | % of (%) Loans | | Allow- ance \$ | % of (%) Loans | | Allow- ance \$ | % of (%) Loans | | Allow- ance \$ | % of (%) Loans | |
| (Dollars in thousands) | | | | | | | | | | | | | | | |
| Commercial, financial, and agricultural | \$1,295 | 28% | 24% | \$ 845 | 21% | 21% | \$ 860 | 25% | 25% | \$1,170 | 36% | 27% | \$1,276 | 41% | 25% |
| Real estate | 3,028 | 67% | 76% | 3,003 | 74% | 79% | 2,276 | 66% | 74% | 1,830 | 57% | 72% | 1,587 | 51% | 73% |
| Installment loans to individuals | 8 | — | — | 16 | —% | — | 17 | 1% | 1% | 34 | 1% | 1% | 39 | 1% | 2% |
| Unallocated | 218 | 5% | — | 183 | 5% | — | 282 | 8% | — | 200 | 6% | — | 239 | 7% | — |
| Total | \$4,549 | 100% | 100% | \$4,047 | 100% | 100% | \$3,435 | 100% | 100% | \$3,234 | 100% | 100% | \$3,141 | 100% | 100% |

NON-PERFORMING ASSETS

As a result of Management's ongoing review of the loan portfolio, loans are classified as non-accrual when reasonable doubt exists as to the full or timely collection of interest or principal, or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. These loans are classified as non-accrual, even though the presence of collateral or the borrower's financial strength may be sufficient to provide for ultimate repayment. When a loan is placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest on non-accrual loans is recognized only when received. The additional amount of interest that would have been recorded during 2004, 2003, and 2002, had such loans classified as non-accrual been current in accordance with their original terms, amounted to \$55,000, \$57,000, and \$30,000, respectively.

Non-performing assets are defined as non-accrual and renegotiated loans and other real estate acquired by foreclosure. The Company's non-performing assets as a percentage of total loans and other real estate were .84% at December 31, 2004 compared to .12% at the end of the prior year. Non-performing assets at December 31, 2004 consisted of nine SBA loans fully guaranteed by the SBA totaling \$958,000 and one \$337,000 conventional commercial loan secured by real estate. The conventional loan was subsequently liquidated in 2005. Additionally, there was one parcel of real estate owned at December 31, 2004 totaling \$1,544,000 due to a foreclosure on a commercial loan. This parcel was listed on the real estate market at year-end. At December 31, 2003, the Company had five non-accrual loans totaling \$392,000 that were SBA loans of which \$336,000 was guaranteed by the SBA. There were no loans past due 90 days or more as to principal or interest payments and still accruing at either December 31, 2004 or 2003.

The following table presents an analysis of the Company's non-performing assets as of the end of each of the five years ended December 31, 2004.

| (Dollars in thousands) | December 31, | | | | |
|---|----------------|--------------|----------------|--------------|----------------|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| Loans on non-accrual | \$1,295 | \$392 | \$ 865 | \$463 | \$1,434 |
| Other real estate owned | 1,544 | — | 141 | — | 595 |
| Total non-performing assets | \$2,839 | \$392 | \$1,006 | \$463 | \$2,029 |
| Total non-performing assets as a percentage of total loans and other real estate | .84% | .12% | .39% | .21% | 1.06% |

Impaired loans are defined as those loans as to which Management believes it is probable that the Company will be unable to collect all principal or interest according to the contractual terms of the note agreement. At year-end 2004 and 2003, the Company had loans totaling \$1,295,000 and \$392,000, respectively that were considered impaired. Impaired loans at year-end 2004 and 2003 included all non-accrual loans. Most of the impaired loans at the end of the current year, \$958,000, were fully guaranteed by the SBA. Specific allocations in the allowance for loan losses at the end of 2004 and 2003, for these loans were \$157,000 and \$57,000, respectively.

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Management is not aware of any loans classified for regulatory purposes as loss, doubtful, substandard, or special mention that have not been disclosed which (1) represent or result from trends or uncertainties, which Management reasonably expects will materially impact future operating results, liquidity, or capital resources, or (2) represent material credits about which Management is aware of any information which causes Management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms.

INVESTMENT SECURITIES

The Bank typically invests in lower yielding investment security instruments when there are excess funds available or if there is a need for collateral for government or other regulatory agency deposits or for leveraging purposes to lock in interest rate spreads on borrowed funds. Most of the securities owned at December 31, 2004 were classified as available for sale; however, there were several obligations of municipalities classified as held to maturity. Securities are classified as "available for sale" or "held to maturity" at the time of purchase. Securities held to maturity are recorded at cost with no adjustments to the carrying value for market pricing fluctuations unless the value becomes other than temporarily impaired. Securities classified as available for sale are recorded at cost, however the values are adjusted monthly to reflect fluctuations in the market value of these securities. Increases or decreases in the market value of available for sale securities are reflected through an adjustment to the unrealized gain or loss on securities component in shareholders' equity. Municipal securities obligations have the added benefit of tax exemption characteristics at the federal and/or state level.

At December 31, 2004, the Company's total investment security portfolio was \$149 million, up 21% over the total of securities at December 31, 2003. The increase was largely due to the placement of excess funds in the investment portfolio when loan growth slowed in the second half of 2004. Additionally, the Company leveraged \$20 million in the fourth quarter, funding the purchase of the securities with short-term repurchase agreements and using these securities as collateral to yield a spread that was approximately 2% at December 31, 2004. A portion of the total portfolio, approximately 71% at the end of 2004, was pledged for various purposes.

The following table presents maturity distribution and yields of investment securities available for sale.

| | December 31, 2004 | | | December 31, 2003 | |
|--|-------------------|------------------|------------------------------------|-------------------|------------------|
| | Amortized Cost | Fair Value | Year-end Weighted Avg. Yield | Amortized Cost | Fair Value |
| (Dollars in thousands) | | | | | |
| U.S. Government Agencies | | | | | |
| One year or less | \$ 5,901 | \$ 5,933 | 3.30% | \$ — | \$ — |
| Over one through five years | 42,871 | 42,510 | 3.45% | 50,803 | 50,920 |
| Over five years | — | — | — | 3,100 | 3,114 |
| Total U.S. Government Agencies | 48,772 | 48,443 | 3.43% | 53,903 | 54,034 |
| Mortgage-Backed Securities | | | | | |
| One year or less | — | — | — | 43 | 43 |
| Over one through five years | 338 | 354 | 5.90% | 455 | 471 |
| Over five through ten years | 26,228 | 26,303 | 4.07% | 8,063 | 8,453 |
| Over ten years | 52,612 | 52,759 | 4.93% | 42,521 | 43,024 |
| Total mortgage-backed securities | 79,178 | 79,416 | 4.66% | 51,082 | 51,991 |
| Tax-exempt municipal securities | | | | | |
| Over one through five years | 500 | 529 | 4.10% | 250 | 267 |
| Over five through ten years | 770 | 820 | 4.30% | 1,020 | 1,090 |
| Over ten years | 3,535 | 3,648 | 4.61% | 3,538 | 3,620 |
| Total tax-exempt municipal securities | 4,805 | 4,997 | 4.51% | 4,808 | 4,977 |
| Total investment securities available for sale | \$132,755 | \$132,856 | 4.20% | \$109,793 | \$111,002 |

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The following table presents maturity distribution and yields of investment securities held to maturity.

| | December 31, 2004 | | | December 31, 2003 | |
|--|-------------------|-----------------|------------------------------------|-------------------|-----------------|
| (Dollars in thousands) | Amortized Cost | Fair Value | Year-end Weighted Avg. Yield | Amortized Cost | Fair Value |
| Mortgage-Backed Securities | | | | | |
| Over ten years | \$ — | \$ — | — | \$ 1,016 | \$ 1,105 |
| Total mortgage-backed securities | — | — | — | 1,016 | 1,105 |
| Tax-exempt municipal securities | | | | | |
| Over one through five years | 1,637 | 1,636 | 3.89% | 1,442 | 1,446 |
| Over five through ten years | — | — | — | 445 | 453 |
| Over ten years | 14,301 | 15,066 | 4.87% | 9,550 | 10,041 |
| Total tax-exempt municipal securities | 15,938 | 16,702 | 4.81% | 11,437 | 11,940 |
| Total investment securities held to maturity | \$15,938 | \$16,702 | 4.81% | \$12,453 | \$13,045 |

DEPOSITS

The primary source for funding asset growth is deposits. Deposits totaled \$434 million at December 31, 2004, an increase of 18% over one year ago. Since Summit's primary market niche targets small businesses and commercial relationships, it typically retains a strong percentage of noninterest-bearing deposits to total deposits which reduces the overall cost of funds. At December 31, 2004, noninterest-bearing demand deposits represented 24% of total deposits. By comparison, according to the most recent Uniform Bank Performance Report, other financial institutions of similar size to Summit have average noninterest-bearing deposits of only 12%. During 2004, demand deposits grew 22% to \$104 million at December 31. The Bank opened a limited facility branch on the south side of Atlanta in July 2004. This location has enabled the credit relationships of the Bank that are located in that area to have a more convenient location to make deposits.

Time deposits reflected a growth rate of 7% comparing total time deposits at December 31, 2004 to the total at the end of the prior year. The Bank sometimes uses public funding from the State of Georgia, as well as national market time deposits, when liquidity needs warrant. The State of Georgia time deposits are typically six-month instruments and have attractive interest rates, although the Bank also provides collateral for them in the form of U.S. agency securities. National market time deposits have various maturity dates and typically come from credit unions. Each credit union typically invests approximately \$100,000 to stay within the FDIC insurance limits on deposits.

The following table presents the average amount outstanding and the average rate paid on deposits by the Company for the years ended December 31, 2004, 2003, and 2002.

| | 2004 | | 2003 | | 2002 | |
|--|--------------------|-----------------|--------------------|-----------------|--------------------|-----------------|
| (Dollars in thousands) | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate |
| Noninterest-bearing deposits | \$ 88,210 | —% | \$ 80,076 | —% | \$ 66,875 | —% |
| Interest-bearing deposits: | | | | | | |
| NOW accounts | 19,071 | .11% | 17,274 | .16% | 16,493 | .42% |
| Money market accounts | 53,652 | .67% | 56,792 | .72% | 46,814 | 1.30% |
| Savings deposits | 14,121 | .25% | 11,951 | .38% | 10,740 | .70% |
| Other time deposits | 221,388 | 2.81% | 183,347 | 3.15% | 166,867 | 3.83% |
| Total | \$396,442 | 1.67% | \$349,440 | 1.79% | \$307,789 | 2.32% |

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The following table presents the maturity of the Company's time deposits at December 31, 2004.

| (In thousands) | Time Deposits of \$100,000 and Greater | Time Deposits Less Than \$100,000 | Total |
|-------------------------|---|--------------------------------------|------------------|
| Months to maturity: | | | |
| 3 or less | \$ 37,146 | \$24,521 | \$ 61,667 |
| Over 3 through 6 | 31,779 | 21,149 | 52,928 |
| Over 6 through 12 | 25,508 | 23,473 | 48,981 |
| Over 12 | 36,253 | 20,985 | 57,238 |
| Total | <u>\$130,686</u> | <u>\$90,128</u> | <u>\$220,814</u> |

OTHER BORROWED FUNDS

The Company is an active member of the Federal Home Loan Bank ("FHLB") and had three advances totaling \$25 million at both December 31, 2004 and 2003 from the FHLB. These advances are fully collateralized by Bank-owned investment securities, and are primarily used to fund additional loan growth at times when loan growth outpaces deposit growth. The weighted-average rate for these borrowings at December 31, 2004 was 3.03%, and the advances have maturity dates ranging from eleven months to five years.

The Company also utilized two types of short-term security repurchase agreement arrangements to provide funding for asset growth. The first type was overnight repurchase agreements with commercial Bank customers, and the second was short-term repurchase agreements with correspondent relationships. The total of these agreements, collateralized with Bank-owned securities, at December 31, 2004 and 2003 was flat at \$35 million, although it varied during the years based on short-term funding needs. The weighted-average rate for these borrowings at the end of the current year was 2.11% compared to 1.01% at the end of 2003.

From time to time, the Company also utilizes the overnight purchase of federal funds to meet short-term needs. Although at both December 31, 2004 and 2003, there were no outstanding federal funds purchased, the average balance of federal funds purchased during 2004 was \$4 million, indicating usage of the lines as needed throughout the year.

In 2003, the Company issued \$12 million of trust preferred securities, through a wholly-owned subsidiary. The Company injected \$9 million as a capital contribution to the Bank to support growth plans and retained \$3 million for future use. The resulting 30-year debentures of the Company had a floating rate of LIBOR plus 3.1%, which was a rate of approximately 5.65% at December 31, 2004 compared to a rate of approximately 4.30% at December 31, 2003.

LIQUIDITY AND INTEREST RATE SENSITIVITY

Liquidity represents the ability to provide steady sources of funds for loan commitments and investment activities, as well as to provide sufficient funds to cover deposit withdrawals and payment of debt, off-balance sheet obligations and operating obligations. These funds can be obtained by converting assets to cash or by attracting new deposits. The Company also has lines of credit available from other funding sources to provide additional funds as needed. These sources include the FHLB and other correspondent financial institutions.

The decline of the growth rate of the loan portfolio in the latter part of 2004 had an impact on the liquidity of the Bank in that deposit growth began outpacing loan growth. At December 31, 2004, the Company's net loan to deposit ratio was 77%, down from a ratio of 85% at December 31, 2003. Much of the excess deposit growth was placed in the investment security portfolio until loan growth resumes. Management monitors and assesses the adequacy of the Company's liquidity position on a monthly basis to ensure that sufficient sources of liquidity are maintained and available. In 2004, insufficient liquidity was not a factor for the Bank.

Interest rate sensitivity refers to the responsiveness of interest-bearing assets and liabilities to changes in market interest rates. The rate-sensitive position, or gap, is the difference in the volume of rate-sensitive assets and liabilities, at a given interval. The general objective of gap management is to actively manage rate-sensitive assets and liabilities to reduce the impact of interest rate fluctuations on the net interest margin. Management and the Asset/Liability Committee generally attempt to maintain a balance between rate-sensitive assets and liabilities, as the exposure period is lengthened, to minimize the overall interest rate risk to the Company. The asset

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mix of the balance sheet is continually evaluated in terms of several variables: yield, credit quality, appropriate funding sources, and liquidity. Management of the liability mix of the balance sheet focuses on expanding the various funding sources.

The Bank has several funding sources on which to draw, should liquidity needs warrant. Unsecured federal funds lines with various correspondent financial institutions totaled \$18 million at December 31, 2004. There are restrictions as to the number of consecutive days under which federal funds can be purchased, and these restrictions are closely monitored for adherence. While there were no outstanding advances under these credit lines at December 31, 2004, the lines were utilized during the year as needed. The Federal Home Loan Bank ("FHLB") is another available source for funding, provided the Company has sufficient assets, investment securities or loans, for collateral. The total line with the FHLB at December 31, 2004 was \$57,480,000. Of this total, Summit had outstanding advances totaling \$25 million.

Other wholesale funding used in 2004 included short-term repurchase agreements with correspondent institutions, as well as overnight repurchase agreements with Bank corporate customers, collateralized with U.S. agency securities. Additional funding sources include institutional time deposits, typically of \$100,000 increments. During 2004, primarily early in the year, the Bank obtained approximately \$21 million of additional time deposit funds from various institutions, with terms typically ranging from 12 to 24 months. This source of funds may be used to add deposits relatively quickly and in larger blocks than through traditional retail branch efforts. As loan growth slowed in the latter part of 2004 and interest rates on institutional time deposits increased in the market, the Bank opted to not renew several of these instruments that matured. The total institutional time deposits held at December 31, 2004 was \$23 million.

From time to time, the Bank also places bids on State of Georgia, Office of Treasury and Fiscal Services time deposits. While these funds also require collateral above the limits of FDIC insurance, the rates have typically been attractive to the Bank and cost-competitive considering the multi-million dollar funding source. At December 31, 2003, the Bank had \$2 million in time deposits from the Office of Treasury and Fiscal Services. As earning assets grow, the Bank may have additional liquidity needs, and Management has considered these other sources to meet those needs.

The Company's interest rate sensitivity position at December 31, 2004 is presented in the table below.

| (Dollars in thousands) | Assets and liabilities repricing within | | | | | Total |
|---|---|------------------|-------------------|------------------|------------------|------------------|
| | 3 Months or Less | 4 to 6 Months | 7 to 12 Months | 1-5 Years | Over 5 Years | |
| Interest-earning assets: | | | | | | |
| Loans | \$255,121 | \$2,860 | \$4,952 | \$67,568 | \$8,704 | \$339,205 |
| Interest Rate Swap | (25,000) | — | — | 25,000 | — | — |
| Investment securities | 4,576 | 1,500 | 8,933 | 52,570 | 84,312 | 151,891 |
| Federal funds sold | 16,000 | — | — | — | — | 16,000 |
| Interest-bearing deposits with other banks | 249 | — | — | — | — | 249 |
| Total interest – earning assets | <u>\$250,946</u> | <u>\$4,360</u> | <u>\$13,885</u> | <u>\$145,138</u> | <u>\$93,016</u> | <u>\$507,345</u> |
| Interest-bearing liabilities: | | | | | | |
| Deposits | \$100,353 | \$59,605 | \$68,210 | \$102,150 | \$80 | \$330,398 |
| Federal Home Loan Bank advances | — | — | 5,000 | 20,000 | — | 25,000 |
| Other borrowed funds | 35,394 | — | — | — | — | 35,394 |
| Long-term Debentures | — | — | — | — | 12,000 | 12,000 |
| Total interest – bearing liabilities | <u>135,747</u> | <u>59,605</u> | <u>73,210</u> | <u>122,150</u> | <u>12,080</u> | <u>402,792</u> |
| Interest sensitivity gap | <u>115,199</u> | <u>(55,245)</u> | <u>(59,325)</u> | <u>22,988</u> | <u>80,936</u> | <u>104,553</u> |
| Cumulative interest sensitivity gap | <u>\$115,199</u> | <u>\$59,954</u> | <u>\$629</u> | <u>\$23,617</u> | <u>\$104,553</u> | <u>\$104,553</u> |
| Cumulative sensitivity ratio (Cumulative interest-earning assets/cumulative interest-bearing liabilities) | <u>1.85</u> | <u>1.31</u> | <u>1.00</u> | <u>1.06</u> | <u>1.26</u> | <u>1.26</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Over the past year, the Company's strategy has been to remain asset-sensitive due to the nature of the primarily-floating rate loan portfolio and the rising rate environment. Being asset-sensitive, comparing the Company's interest-earning assets to interest-bearing liabilities through the next twelve months, suggests that the Company's net interest income could be negatively impacted by further decreases in market rates. Since all interest rates and yields do not adjust at the same velocity, the gap is only a general indicator of rate sensitivity. For purposes of the above repricing presentation, all interest-bearing demand and savings deposits are considered not highly volatile and are, therefore, classified with 50% of the balances repricing in the one-year or less periods and 50% in the over-one-year periods. There was one exception to this classification method. At the end of 2004, \$20 million in temporary deposits were placed in a money market account. Due to the temporary nature of these funds, 100% were considered repriceable in three months or less. Time deposits are presented based on their contractual terms. The Company's policy is to maintain its one-year gap position in the .8 to 1.2 range. The one-year gap reflected by the interest rate sensitivity table is 1.00, indicating adherence to Company policy. Management closely monitors the Company's position, and, if rates should change in either direction, Management will take steps to reposition its interest-earning assets and interest-bearing liabilities to minimize the impact of gap exposure.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company has commitments to its customers under lines of credit, in addition to the Company's contractual obligations such as deposits, FHLB advances and other borrowed funds. The total of these commitments at December 31, 2004 was approximately \$39 million. The lines include conventional revolving lines of credit that consist of commercial working capital lines that renew annually. Commitments also include annually renewing international lines for letters of credit availability. There are commitments under non-revolving lines of credit that are used by customers for specific purposes, as well as various types of consumer lines of credit. These include lines secured by mortgages on residential real estate and unsecured revolving credit lines. Although Management regularly monitors the balance of outstanding commitments to ensure funding availability, should the need arise, historical records indicate that the total of outstanding commitments is a very consistent amount, and the risk of all customers fully drawing on all these lines at the same time is remote.

The following table reflects a summary of the Company's commitments to extend credit, commitments under contractual leases, as well as the Company's contractual obligations, consisting of deposits, FHLB advances and borrowed funds, by contractual maturity date.

| | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter |
|---|------------------|-----------------|-----------------|----------------|----------------|-----------------|
| Demand and savings deposits | \$213,639 | \$ — | \$ — | \$ — | \$ — | \$ — |
| Time deposits | 163,576 | 26,927 | 24,315 | 2,951 | 2,965 | 80 |
| Federal Home Loan Bank advances | 5,000 | 20,000 | — | — | — | — |
| Other borrowed funds | 35,394 | — | — | — | — | — |
| Long-term debentures | — | — | — | — | — | 12,000 |
| Commitments to customers under lines of credit | 39,395 | — | — | — | — | — |
| Commitments under lease agreements | 1,346 | 1,217 | 1,117 | 711 | 733 | 2,878 |
| | <u>\$458,350</u> | <u>\$48,144</u> | <u>\$25,432</u> | <u>\$3,662</u> | <u>\$3,698</u> | <u>\$14,958</u> |

In addition, the Company entered into a Post-Retirement Compensation Agreement with its CEO in 2004 that provides for 15 annual payments of \$24,000 each, beginning six months after her retirement from the Company and no earlier than February 27, 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MARKET RISK

Market risk reflects the risk of economic loss resulting from adverse changes in market prices and interest rates. This risk of loss can be reflected in either diminished current market values or reduced potential net interest income in future periods. The Company's primary market risk exposure is currently the interest rate risk inherent in its lending and deposit taking activities. The structure of the Company's loan and deposit portfolios is such that a significant decline in the prime rate may adversely impact net market values and interest income. The Company manages its interest rate risk through the use of various tools, including managing the composition and size of the investment portfolio so as to reduce the interest rate risk in the deposit and loan portfolios, at the same time maximizing the yield generated by the portfolio.

The table below presents the contractual balances and the estimated fair value of the Company's financial instruments at their expected maturity dates as of December 31, 2004. The expected maturity categories for investment securities take into consideration historical prepayment experience, as well as Management's expectations based on the interest rate environment as of December 31, 2004. For core deposits without contractual maturity (i.e., interest-bearing checking, savings, and money market accounts), the table presents principal cash flows based on Management's judgment concerning their most likely runoff or repricing behaviors. Weighted average variable rates are based on implied forward rates in the yield curve as of December 31, 2004.

| | Expected Maturity Date | | | | | | | |
|--|------------------------|----------|--------|----------|----------|------------|-----------|------------|
| (Dollars in thousands) | 2005 | 2006 | 2007 | 2008 | 2009 | Thereafter | Total | Fair Value |
| Assets | | | | | | | | |
| Investment Securities | | | | | | | | |
| Fixed rate | \$11,933 | \$ 5,163 | \$ 968 | \$34,746 | \$ 4,153 | \$ 81,180 | \$138,143 | \$138,907 |
| Average interest rate | 3.93% | 5.14% | 2.47% | 3.23% | 3.98% | 4.84% | 4.32% | |
| Variable rate | — | — | — | — | — | 10,673 | 10,673 | 10,673 |
| Average interest rate | — | — | — | — | — | 3.66% | 3.66% | |
| Loans | | | | | | | | |
| Fixed rate | 9,486 | 10,467 | 18,451 | 23,274 | 12,315 | 11,765 | 85,758 | 85,562 |
| Average interest rate | 6.19% | 7.29% | 7.18% | 6.62% | 6.38% | 6.51% | 6.73% | |
| Variable rate | 39,214 | 10,465 | 17,324 | 22,027 | 43,121 | 121,296 | 253,447 | 255,350 |
| Average interest rate | 6.37% | 6.42% | 6.46% | 6.41% | 6.24% | 6.48% | 6.41% | |
| Interest-bearing deposits with other banks | | | | | | | | |
| Variable rate | 249 | — | — | — | — | — | 249 | 249 |
| Average interest rate | 2.10% | — | — | — | — | — | 2.10% | |
| Liabilities | | | | | | | | |
| Interest-bearing deposits and savings | 54,792 | 18,264 | 18,264 | 18,264 | — | — | 109,584 | 109,584 |
| Average interest rate | .48% | .48% | .48% | .48% | — | — | .48% | |
| Time deposits Fixed rate | 163,576 | 26,927 | 24,315 | 2,951 | 2,965 | 80 | 220,814 | 221,256 |
| Average interest rate | 2.67% | 3.97% | 3.80% | 3.33% | 3.94% | 4.94% | 2.98% | |
| Variable rate short- term borrowings | 35,394 | — | — | — | — | — | 35,394 | 35,394 |
| Average interest rate | 2.11% | — | — | — | — | — | 2.11% | |
| Variable rate long- term borrowings | 5,000 | 20,000 | — | — | — | 12,000 | 37,000 | 37,091 |
| Average interest rate | 5.69% | 2.37% | — | — | — | 5.65% | 3.88% | |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAPITAL ADEQUACY

There are various primary measures of capital adequacy for banks and bank holding companies such as risk-based capital guidelines and the leverage capital ratio.

Minimum capital requirements for adequacy purposes consist of a total capital to risk-weighted assets ratio of 8%, and Tier 1 capital to risk-weighted assets and Tier 1 leverage ratios of 4%. As of December 31, 2004, the Bank exceeded all required levels of capital, and was considered well-capitalized by regulatory standards. The Bank's risk-based capital ratio of Tier 1 capital to risk-weighted assets was 11.9%; its risk-based ratio of total capital to risk-weighted assets was 13.1%; and its Tier 1 leverage ratio was 8.4%.

In September 2003, the Company issued \$12 million of trust preferred securities and contributed \$9 million of those new funds to its subsidiary Bank as a capital injection. According to current Federal Reserve guidelines, trust preferred securities can be included as Tier 1 capital in the Company's capital ratios as well, within certain restrictions. As of December 31, 2004 approximately \$11 million of these securities are considered a part of the Company's Tier 1 capital. In 2004, the Company focused its attention on strengthening its infrastructure with additional resources in order to continue its growth plans with a solid foundation. During the year, a limited service facility was opened in the South Atlanta area, the San Jose branch office was relocated to a more visible location and construction was begun on a new full service branch in metro Atlanta. Management believes the Company has sufficient capital to continue growing organically, as well as to facilitate future acquisition opportunities should they arise.

INFLATION

Inflation has an important impact on the growth of total assets in the banking industry and causes a need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio. The Company has been able to maintain an adequate level of equity, as previously mentioned, and, though inflation has not been a material factor during the last six years, Management will address any future effects of inflation by managing its interest rate sensitivity gap position through its asset/liability management processes, and by periodically adjusting its pricing of services and banking products to take into consideration current costs.

BUSINESS SEGMENT INFORMATION

During the past sixteen years, the consolidated income of the Company and its subsidiaries has been provided primarily through banking activities.

RECENT ACCOUNTING PRONOUNCEMENTS

FASB Interpretation No. 46, *Consolidation of Variable Interest Entities and Interpretation of ARB No. 51 (FIN 46)*, was issued in January 2003 and was reissued in December 2003 as FASB Interpretation No. 46 (revised December 2003) - (FIN 46R). FIN 46 and FIN 46R are applicable to all special purpose entities no later than the end of the first reporting period ending after December 15, 2003. Pursuant to both FIN 46 and FIN 46R, Summit Bank Corporation Capital Trust I (the Trust), formed on September 30, 2003, is considered a variable interest entity as its activities are so restricted and predetermined that the equity holders lack the direct or indirect ability to make decisions about the Trust's activities through voting rights or similar rights. Additionally, the common stock equity held by the Company is not considered at risk and, therefore, the common stock equity does not meet the definition of a variable interest. As the Company does not have a variable interest in the Trust, it cannot be the primary beneficiary of the Trust and, therefore, on December 31, 2003, the Company deconsolidated the Trust.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This standard amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133. The standard is effective for contracts entered into or modified after June 30, 2003. Adoption of SFAS No. 149 did not have a significant effect on the Company's consolidated financial statements.

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue 03-1, *Meaning of Other Than Temporary Impairment (Issue 03-1)*. The Task Force reached a consensus on an other-than-temporary impairment model for debt and equity securities accounted for under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and cost method investments. The basic model developed by the Task Force in evaluating whether an investment within the scope of Issue 03-1 is other-than-temporarily impaired includes determining whether the investment is impaired, evaluating whether the impairment is other-than-temporary, and, if the impairment is other-than-temporary, recognizing an impairment loss equal to the difference between the investment's cost and its fair value. In September 2004, the FASB approved a FASB Staff Position ("FSP") to delay the requirement and method for determining impairment losses under Issue 03-1. The approved delay will apply to all securities within the scope of Issue 03-1 and is expected to end when new guidance is issued and comes into effect. The FSP did not affect the disclosure requirements of Issue 03-1. The Company will continue to monitor changes to Issue 03-1, but does not consider it, or the related FSP to have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment* which requires companies to recognize, in the statement of income, the grant-date fair value of stock options and other equity-based compensation issued to employees. The standard is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. Based on the Company's historically limited grants of stock options to its employees, the Company does not expect the adoption of SFAS 123R to have a significant effect on its results of operations.

In December 2003, the AICPA issued Statement of Position (SOP) 03-3 *Accounting for Certain Loans or Debt Securities acquired in a Transfer*. This statement addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes such loans acquired in purchase business combinations. This SOP does not apply to loans originated by the entity. This SOP limits the yield that may be accreted (accretable yield) to the excess of the investor's estimate of undiscounted expected principal, interest, and other cash flows (cash flows expected at acquisition to be collected) over the investor's initial investment in the loan. This SOP requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual, or valuation allowance. This SOP prohibits investors from displaying the accretable yield and nonaccretable difference in the balance sheet. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment. The Company will follow the requirements of this statement in any future acquisition of loans or debt securities.

CONSOLIDATED BALANCE SHEETS

| (In thousands, except share and per share amounts) | December 31, 2004 | 2003 |
|--|----------------------|------------------|
| Assets | | |
| Cash and due from banks (note 9) | \$ 20,810 | \$ 16,227 |
| Interest-bearing deposits with other banks | 249 | 261 |
| Federal funds sold | 16,000 | 1,750 |
| Cash and cash equivalents | 37,059 | 18,238 |
| Investment securities available for sale (notes 2, 11, and 12) | 132,856 | 111,002 |
| Investment securities held to maturity (estimated fair value of \$16,702 and \$13,045 in 2004 and 2003, respectively) – (note 3) | 15,938 | 12,453 |
| Other investments (note 4) | 3,097 | 2,271 |
| Loans, net of unearned income of \$1,076 and \$1,171 in 2004 and 2003, respectively | 339,205 | 317,072 |
| Less allowance for loan losses | (4,549) | (4,047) |
| Net loans (note 6) | 334,656 | 313,025 |
| Premises and equipment, net (note 7) | 4,312 | 4,053 |
| Customers' acceptance liability | 3,223 | 1,933 |
| Deferred income taxes (note 14) | 2,449 | 1,615 |
| Goodwill, net | 1,530 | 1,530 |
| Bank-owned life insurance | 7,478 | 7,041 |
| Other real estate owned | 1,544 | – |
| Other assets (note 8) | 3,566 | 3,984 |
| Total assets | <u>\$547,708</u> | <u>\$477,145</u> |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Deposits (note 10): | | |
| Noninterest-bearing demand | \$104,055 | \$ 85,103 |
| Interest-bearing: | | |
| Demand | 97,836 | 61,828 |
| Savings | 11,748 | 15,138 |
| Time, \$100,000 and over | 130,686 | 110,980 |
| Other time | 90,128 | 95,550 |
| Total deposits | 434,453 | 368,599 |
| Acceptances outstanding | 3,223 | 1,933 |
| Federal Home Loan Bank advances (note 12) | 25,000 | 25,000 |
| Other borrowed funds (note 11) | 35,394 | 34,957 |
| Long-term debentures (note 13) | 12,000 | 12,000 |
| Other liabilities | 3,009 | 1,920 |
| Total liabilities | 513,079 | 444,409 |
| Stockholders' equity (notes 16, 18, and 22): | | |
| Common stock, \$0.01 par value. Authorized 100,000,000 shares; issued and outstanding 5,690,104 shares in 2004 and 5,652,604 shares in 2003 | 57 | 57 |
| Additional paid-in capital | 17,445 | 17,258 |
| Accumulated other comprehensive (loss) income | (108) | 1,064 |
| Retained earnings | 17,235 | 14,357 |
| Total stockholders' equity | 34,629 | 32,736 |
| Commitments and contingencies (note 15) | | |
| Total liabilities and stockholders' equity | <u>\$547,708</u> | <u>\$477,145</u> |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

| (In thousands, except share and per share amounts) | Years ended December 31, | | |
|--|--------------------------|-----------|-----------|
| | 2004 | 2003 | 2002 |
| Interest income: | | | |
| Loans, including fees | \$ 21,016 | \$ 18,395 | \$ 16,765 |
| Federal funds sold | 24 | 26 | 68 |
| Interest-bearing deposits with other banks | 7 | 6 | 8 |
| Taxable securities | 4,644 | 4,366 | 4,348 |
| Tax-exempt securities | 885 | 677 | 635 |
| Other investments | 114 | 78 | 77 |
| Total interest income | 26,690 | 23,548 | 21,901 |
| Interest expense: | | | |
| Time deposits, \$100,000 and over | 3,818 | 3,187 | 3,136 |
| Other deposits | 2,805 | 3,073 | 4,011 |
| Federal Home Loan Bank advances | 636 | 516 | 724 |
| Other borrowings | 1,001 | 369 | 228 |
| Total interest expense | 8,260 | 7,145 | 8,099 |
| Net interest income | 18,430 | 16,403 | 13,802 |
| Provision for loan losses (note 6) | 1,090 | 1,199 | 1,130 |
| Net interest income after provision for loan losses | 17,340 | 15,204 | 12,672 |
| Noninterest income: | | | |
| Fees for international trade finance services | 1,322 | 1,228 | 1,073 |
| SBA loan servicing fees | 72 | 95 | 97 |
| Overdraft charges | 927 | 913 | 860 |
| Service charge income | 633 | 734 | 756 |
| Income from bank-owned life insurance | 437 | 436 | 433 |
| Gains on interest rate swaps | 13 | – | 475 |
| Net gain on sales of securities available for sale (note 2) | 143 | 100 | 255 |
| Other | 381 | 423 | 1,074 |
| Total noninterest income | 3,928 | 3,929 | 5,023 |
| Noninterest expenses: | | | |
| Salaries and employee benefits (note 17) | 7,161 | 6,528 | 6,308 |
| Equipment | 1,082 | 941 | 828 |
| Net occupancy | 1,375 | 1,139 | 956 |
| Other (note 21) | 4,119 | 3,603 | 3,716 |
| Total noninterest expenses | 13,737 | 12,211 | 11,808 |
| Income before income taxes | 7,531 | 6,922 | 5,887 |
| Income tax expense (note 14) | 2,378 | 2,100 | 1,743 |
| Net income | \$ 5,153 | \$ 4,822 | \$ 4,144 |
| Net income per share – basic | \$ 0.91 | \$ 0.85 | \$ 0.74 |
| Net income per share – diluted | \$ 0.91 | \$ 0.85 | \$ 0.74 |
| Weighted average number of common shares outstanding | 5,686,563 | 5,652,604 | 5,636,904 |
| Weighted average number of common and common equivalent shares outstanding | 5,687,303 | 5,672,007 | 5,646,608 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Years ended December 31, 2004, 2003, and 2002

| | | | | | Accumulated | | |
|--|----------------|------------------|-------------|-----------------|-----------------|-----------------|-----------------|
| | Comprehensive | Common stock | | Additional | Other | Retained | Total |
| (In thousands, except share and per share amounts) | Income | Shares | Amount | Paid-In | Comprehensive | Earnings | Stockholders' |
| | | | | Capital | Income (Loss) | | Equity |
| Balances, December 31, 2001 | | 5,803,868 | \$58 | \$18,210 | \$ 265 | \$ 8,863 | \$27,396 |
| Comprehensive income: | | | | | | | |
| Net income | \$4,144 | — | — | — | — | 4,144 | 4,144 |
| Net unrealized gains on investment securities available for sale, net of tax effect and reclassification adjustment (note 22) | 1,460 | — | — | — | 1,460 | — | 1,460 |
| Net unrealized gains on interest rate swap agreements (note 22) | 641 | — | — | — | 641 | — | 641 |
| Total comprehensive income | <u>\$6,245</u> | | | | | | |
| Issuance of common stock | | 57,938 | 1 | 232 | — | — | 233 |
| Repurchase of common stock | | (209,202) | (2) | (1,184) | — | — | (1,186) |
| Cash dividends declared, \$0.27 per share | | — | — | — | — | (1,512) | (1,512) |
| Balances, December 31, 2002 | | 5,652,604 | 57 | 17,258 | 2,366 | 11,495 | 31,176 |
| Comprehensive income: | | | | | | | |
| Net income | \$4,822 | — | — | — | — | 4,822 | 4,822 |
| Net unrealized losses on investment securities available for sale, net of tax effect and reclassification adjustment (note 22) | (912) | — | — | — | (912) | — | (912) |
| Net unrealized losses on interest rate swap agreements (note 22) | (390) | — | — | — | (390) | — | (390) |
| Total comprehensive income | <u>\$3,520</u> | | | | | | |
| Cash dividends declared, \$0.35 per share | | — | — | — | — | (1,960) | (1,960) |
| Balances, December 31, 2003 | | 5,652,604 | 57 | 17,258 | 1,064 | 14,357 | 32,736 |
| Comprehensive income: | | | | | | | |
| Net income | \$5,153 | — | — | — | — | 5,153 | 5,153 |
| Net unrealized losses on investment securities available for sale, net of tax effect and reclassification adjustment (note 22) | (710) | — | — | — | (710) | — | (710) |
| Net unrealized losses on interest rate swap agreements (note 22) | (462) | — | — | — | (462) | — | (462) |
| Total comprehensive income | <u>\$3,981</u> | | | | | | |
| Issuance of common stock | | 37,500 | — | 187 | — | — | 187 |
| Cash dividends declared, \$0.40 per share | | — | — | — | — | (2,275) | (2,275) |
| Balances, December 31, 2004 | | 5,690,104 | \$57 | \$17,445 | \$ (108) | \$17,235 | \$34,629 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In thousands) | Years ended December 31, | | |
|---|--------------------------|------------------|------------------|
| | 2004 | 2003 | 2002 |
| Cash flows from operating activities: | | | |
| Net income | \$ 5,153 | \$ 4,822 | \$ 4,144 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization of premises and equipment | 832 | 722 | 628 |
| Deferred tax (benefit) expense | (312) | (5) | 213 |
| Net amortization of premiums/discounts on investment securities | 461 | 339 | 354 |
| Amortization of servicing assets | 125 | 174 | 259 |
| Proceeds from termination of interest rate swap | 46 | — | — |
| Gains on interest rate swaps | — | — | (391) |
| Amortization of deferred gain on termination of interest rate swap | (13) | — | — |
| Income from bank-owned life insurance | (437) | (436) | (433) |
| Provision for loan losses | 1,090 | 1,199 | 1,130 |
| Earnings from split-dollar life insurance | — | (45) | — |
| Net gains on sales of investment securities | (143) | (100) | (255) |
| Losses on disposal of other real estate | — | 212 | — |
| Changes in other assets and liabilities: | | | |
| Net decrease in loans held for sale | — | — | 12,107 |
| (Increase) decrease in other assets | (309) | (616) | 742 |
| Increase in other liabilities | 1,072 | 389 | 347 |
| Net cash provided by operating activities | <u>7,565</u> | <u>6,655</u> | <u>18,845</u> |
| Cash flows from investing activities: | | | |
| Proceeds from sales of investment securities available for sale | 18,454 | 19,873 | 18,517 |
| Purchases of investment securities available for sale and other investments | (62,232) | (71,503) | (69,263) |
| Purchases of investment securities held to maturity | (4,692) | (349) | (428) |
| Proceeds from maturities of investment securities available for sale | 9,381 | 25,235 | 19,218 |
| Principal collections on investment securities available for sale | 10,486 | 12,078 | 11,499 |
| Principal collections on investment securities held to maturity | 1,010 | 10 | 9 |
| Loans made to customers, net of principal collected on loans | (24,265) | (59,633) | (52,156) |
| Purchases of premises and equipment | (1,091) | (1,371) | (606) |
| Liquidation of other investment | 2 | — | — |
| Net cash used in investing activities | <u>(52,947)</u> | <u>(75,660)</u> | <u>(73,210)</u> |
| Cash flows from financing activities: | | | |
| Net increase in demand and savings deposits | 51,570 | 11,809 | 18,487 |
| Net increase in time deposits | 14,284 | 39,364 | 4,015 |
| Proceeds from Federal Home Loan Bank advances | — | 5,000 | 10,000 |
| Net increase in other borrowed funds | 437 | 4,232 | 25,259 |
| Proceeds from issuance of long-term debentures | — | 12,000 | — |
| Issuance of common stock | 187 | — | 233 |
| Repurchase of common stock | — | — | (1,186) |
| Dividends paid | (2,275) | (1,960) | (1,512) |
| Net cash provided by financing activities | <u>64,203</u> | <u>70,445</u> | <u>55,296</u> |
| Net increase in cash and cash equivalents | <u>18,821</u> | <u>1,440</u> | <u>931</u> |
| Cash and cash equivalents at beginning of year | <u>18,238</u> | <u>16,798</u> | <u>15,867</u> |
| Cash and cash equivalents at end of year | <u>\$ 37,059</u> | <u>\$ 18,238</u> | <u>\$ 16,798</u> |
| Supplemental disclosures of cash paid during the year: | | | |
| Interest | \$ 7,977 | \$ 7,175 | \$ 8,060 |
| Income taxes | 2,287 | 1,916 | 1,652 |
| Supplemental disclosures of noncash investing activities: | | | |
| Transfer of foreclosed loans to other real estate | <u>\$ 1,544</u> | <u>\$ 697</u> | <u>\$ 141</u> |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) GENERAL

Summit Bank Corporation (the Company) was organized on October 15, 1986 for the purpose of becoming a bank holding company. The Company was approved to become a bank holding company by the Federal Reserve Bank of Atlanta on September 11, 1987. On March 4, 1988, the Company acquired 100% of the stock of The Summit National Bank (the Bank). The organizers received final approval for the charter of the Bank from the Office of the Comptroller of the Currency on March 10, 1988, and the Bank began operations on that date.

In 2003, the Company created a wholly owned subsidiary, Summit Bank Corporation Capital Trust I, for the purpose of issuing \$12 million of 30-year trust preferred securities to a third party. Proceeds from this issuance were loaned to the parent company which then contributed \$9 million to the Bank.

(B) BUSINESS

The Company operates through one segment, providing a full range of banking services to individual and corporate customers through its subsidiary bank. The Company is subject to competition from other financial institutions. The Company is subject to the regulations of certain State and Federal agencies and undergoes periodic examinations by those regulatory authorities.

(C) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Summit Bank Corporation and its subsidiaries, after elimination of all significant intercompany balances and transactions.

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, Management obtains independent appraisals for significant properties. A substantial portion of the Company's loans are secured by real estate in the metropolitan area of Atlanta, Georgia and the South San Francisco Bay area of California. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio is susceptible to changes in the real estate market conditions of these market areas.

Certain 2003 and 2002 amounts have been reclassified to conform to the 2004 presentation.

(D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and due from banks, interest-bearing deposits with other banks with original maturities less than 90 days, and federal funds sold. Federal funds are generally sold for one-day periods.

(E) INVESTMENT SECURITIES

The Company classifies its investment securities into one of three categories: available for sale, held to maturity, or trading. Investment securities at December 31, 2004 and 2003 consist of obligations of U.S. Government agencies, tax-exempt municipal securities, mortgage-backed securities, and equity securities.

Investment securities classified as available for sale securities are reported at fair value. Unrealized holding gains or losses, net of the related tax effect, on available for sale securities are excluded from income and are reported as a separate component of stockholders' equity until realized.

Investment securities classified as held to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts. The Company has the intent and ability to hold these investment securities to maturity.

Investments in stock of the Federal Home Loan Bank of Atlanta and Federal Reserve Bank of Atlanta are restricted stocks, as defined in Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Securities; accordingly, the provisions of SFAS No. 115 are not applicable to these stocks. Both stocks are reported in the consolidated financial statements at cost.

Purchase premiums and discounts on investment securities are amortized and accreted to interest income using the level yield method. In establishing the accretion of discounts and amortization of premiums, the Company utilizes market-based prepayment assumptions. Interest and dividend income are recognized when earned. Realized gains and losses for securities sold are included in income and are derived using the specific identification method for determining the costs of securities sold.

A decline in the fair value of any security below cost that is deemed other than temporary is charged to income resulting in the establishment of a new cost basis for the security.

(F) LOANS

Loans are stated at the amount of unpaid principal, reduced by unearned income and the allowance for loan losses. Unearned income, primarily arising from discount basis installment loans, deferred gains on the sale of the Small Business Administration (SBA) guaranteed portion of loans and deferred loan fees, is recognized as interest income over the terms of the loans using the interest method. Interest on loans is recorded by using the simple interest method on the daily balance of the principal amount outstanding.

Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full or timely collection of interest or principal or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Loans are returned to accruing status only when they are brought fully current with respect to interest and principal and when, in the judgment of Management, the loans are estimated to be fully collectible as to both principal and interest.

Loan fees, net of certain origination costs, are deferred and amortized over the lives of the underlying loans using a method which approximates a level yield.

Impaired loans are measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or at the loan's observable fair value, or the fair value of the collateral if the loan is collateral dependent. Loans that are determined to be impaired require a valuation allowance equivalent to the amount of the impairment. The valuation allowance is established through the provision for loan losses.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the note agreement. Cash receipts on impaired loans which are accruing interest are applied to principal and interest under the contractual terms of the loan agreement. Cash receipts on impaired loans for which the accrual of interest has been discontinued are applied to reduce the principal amount of such loans until the principal has been recovered and are recognized as interest income thereafter.

(G) ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established through provisions for loan losses charged to operations. Loans are charged against the allowance for loan losses when Management believes that the collection of the principal is not probable. Subsequent recoveries are added to the allowance. The allowance is an amount that Management believes will be adequate, determined through use of its allowance for loan losses methodology, to absorb losses on existing loans. The allowance is established through consideration of such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, the underlying value of the collateral, and current economic conditions that may affect the borrowers' ability to pay.

Management believes that the allowance for loan losses is adequate. While Management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, the financial condition of borrowers and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(H) PREMISES AND EQUIPMENT

Premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which are from three to forty years. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the term of the related lease using the straight-line method.

(I) OTHER REAL ESTATE

Other real estate, consisting of properties obtained through foreclosure proceedings or acceptance of a deed in lieu of foreclosure, is reported on an individual asset basis at the lower of cost (carrying value at date of foreclosure) or fair value less disposal costs. Fair value is determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources. When properties are acquired through foreclosure, any excess of the loan balance at the time of foreclosure over the fair value of the real estate held as collateral is recognized as a loss and charged to the allowance for loan losses. Subsequent write-downs are charged to operations. Gains recognized on the disposition of the properties are recorded in noninterest income.

Costs of improvements to other real estate are capitalized, while costs associated with holding other real estate are charged to operations.

(J) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In accordance with SFAS No. 133 and SFAS No. 138, all derivatives are recognized on the balance sheet at their fair value. On the date the derivative contract is entered into, the Company designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or a derivative trading instrument. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair-value or cash-flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income, until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivative trading instruments are reported in current-period earnings.

The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is no longer designated as a hedging instrument, because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or Management determines that designation of the derivatives as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Company continues to carry the derivative on the balance sheet at its fair value, and no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Company continues to carry the derivative on the balance

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

sheet at its fair value, removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet and recognizes any gain or loss in earnings. When hedge accounting is discontinued because it is probable that a

forecasted transaction will not occur, the Company continues to carry the derivative on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income are recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the balance sheet, and recognizes any changes in its fair value in earnings.

(K) INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(L) LOAN SERVICING ASSETS

When the Company sells the guaranteed portions of SBA loans, the servicing is generally retained. At the time of sale, a servicing asset is recorded if expected servicing revenues exceed an amount approximating adequate servicing compensation. The servicing asset is initially recorded based on its fair value relative to the fair values of the portions of the loan sold and retained. The servicing asset, included in other assets, is amortized on a method which approximates a level yield over the estimated life of the serviced loans considering assumed prepayment patterns.

The carrying value of the servicing asset is periodically evaluated for impairment if the Company experiences unanticipated principal prepayments which causes the present value of future net servicing fee revenue to be less than the carrying value. If the servicing asset is determined to be impaired, a valuation allowance is recorded equivalent to the amount of the impairment. The valuation allowance is established through a charge to earnings.

(M) GOODWILL

The Company accounts for goodwill in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, which eliminates amortization of goodwill and intangible assets that have indefinite useful lives and requires annual tests of impairments of those assets. SFAS No. 142 also provides specific guidance about how to determine and measure goodwill and intangible asset impairments, and requires additional disclosures of information about goodwill and other intangible assets.

In accordance with the provisions of SFAS No. 142, the Company tested its goodwill for impairment. To accomplish this, the Company identified its reporting units and determined the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. At December 31, 2004, goodwill is not considered impaired. The Company evaluates goodwill for impairment annually.

At December 31, 2004 and 2003, the Company had net unamortized goodwill of approximately \$1,530,000.

(N) NET INCOME PER SHARE

Basic net income per share excludes dilution and is computed by dividing net income by weighted average shares outstanding. Diluted net income per share is computed by dividing net income by weighted average shares outstanding plus potential common stock resulting from dilutive stock options.

(O) STOCK-BASED COMPENSATION

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure an amendment of FASB Statement No. 123*. SFAS No. 148 amends SFAS No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

employee compensation. Finally, SFAS No. 148 also amends Accounting Principles Board (APB) Opinion No. 28, *Interim Financial Reporting*, to require disclosure about those effects in the interim financial information.

The Company applies APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock option plans. Accordingly, compensation cost is measured as the excess, if any, of the quoted market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. Compensation cost was not recorded for the year ended December 31, 2004, as the quoted market price on the date of grant equaled the exercise price. Compensation cost determined under SFAS No. 123 would have reduced net income and income per share for the year ended December 31, 2004 to the pro forma amounts indicated below (in thousands, except per share amounts):

| | |
|--|-----------------|
| Net income | \$ 5,153 |
| Deduct total stock-based compensation expense determined under fair value based method, net of related tax effect | (25) |
| Pro forma net income | <u>\$ 5,128</u> |
| Net income per common share: | |
| Basic and diluted: | |
| As reported | <u>\$ 0.91</u> |
| Pro forma | <u>\$ 0.90</u> |

Compensation cost determined under SFAS No. 123 did not differ from the compensation cost determined under APB Opinion No. 25 for the years ended December 31, 2003 and 2002 as no stock options or other stock-based compensation were granted in those years.

(p) RECENT ACCOUNTING PRONOUNCEMENTS

FASB Interpretation No. 46, *Consolidation of Variable Interest Entities and Interpretation of ARB No. 51 (FIN 46)*, was issued in January 2003 and was reissued in December 2003 as FASB Interpretation No. 46 (revised December 2003) – (FIN 46R). FIN 46 and FIN 46R are applicable to all special purpose entities no later than the end of the first reporting period ending after December 15, 2003. Pursuant to both FIN 46 and FIN 46R, Summit Bank Corporation Capital Trust I (the Trust) is considered a variable interest entity as its activities are so restricted and predetermined that the equity holders lack the direct or indirect ability to make decisions about the Trust's activities through voting rights or similar rights. Additionally, the common stock equity held by the Company is not considered at risk and, therefore, the common stock equity does not meet the definition of a variable interest. As the Company does not have a variable interest in the Trust, it cannot be the primary beneficiary of the Trust and, therefore, on December 31, 2003, the Company deconsolidated the Trust.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This standard amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133. The standard is effective for contracts entered into or modified after June 30, 2003. Adoption of SFAS No. 149 did not have a significant effect on the Company's consolidated financial statements.

In March 2004, the EITF reached a consensus on Issue 03-1, *Meaning of Other Than Temporary Impairment (Issue 03-1)*. The Task Force reached a consensus on an other-than-temporary impairment model for debt and equity securities accounted for under SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and cost method investments. The basic model developed by the Task Force in evaluating whether an investment within the scope of Issue 03-1 is other-than-temporarily impaired includes determining whether the investment is impaired, evaluating whether the impairment is other-than-temporary, and if the impairment is other-than-temporary, recognizing an impairment loss equal to the difference between the investment's cost and its fair value. In September 2004, the FASB approved a FASB Staff Position (FSP) to delay the requirement and method for determining impairment losses under Issue 03-1. The approved delay will apply to all securities within the scope of Issue 03-1 and is expected to end when new guidance is issued and comes into effect. The FSP did not affect the disclosure requirements of Issue 03-1. The Company will continue to monitor changes to Issue 03-1, but does not consider it, or related FSP to have a material impact on the Company's financial position or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In December 2004, the FASB issued SFAS No. 123R, *Share-Based Payment* which requires companies to recognize, in the statement of income, the grant-date fair value of stock options and other equity-based compensation issued to employees. The standard is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. Based on the Company's historically limited grants of stock options to its employees, the Company does not expect the adoption of SFAS 123R to have a significant effect on its results of operations.

In December 2003 the AICPA issued Statement of Position (SOP) 03-3 *Accounting for Certain Loans or Debt Securities acquired in a Transfer*. This statement addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes such loans acquired in purchase business combinations. This SOP does not apply to loans originated by the entity. This SOP limits the yield that may be accreted (accretable yield) to the excess of the investor's estimate of undiscounted expected principal, interest, and other cash flows (cash flows expected at acquisition to be collected) over the investor's initial investment in the loan. This SOP requires that the excess of contractual cash flows over cash flows expected to be collected (nonaccretable difference) not be recognized as an adjustment of yield, loss accrual, or valuation allowance. This SOP prohibits investors from displaying accretable yield and nonaccretable difference in the balance sheet. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment. The Company will follow the requirements of this statement in any future acquisition of loans or debt securities.

(2) INVESTMENT SECURITIES AVAILABLE FOR SALE

Amortized cost, estimated fair values, and gross unrealized gains and losses of investment securities available for sale are as follows:

| (In thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|-------------------|------------------------------|-------------------------------|-------------------------|
| December 31, 2004: | | | | |
| Obligations of U.S. government agencies | \$ 48,772 | \$ 188 | \$ 517 | \$ 48,443 |
| Tax-exempt municipal securities | 4,805 | 192 | — | 4,997 |
| Mortgage-backed securities | 79,178 | 740 | 502 | 79,416 |
| Total | <u>\$132,755</u> | <u>\$1,120</u> | <u>\$1,019</u> | <u>\$132,856</u> |
| December 31, 2003: | | | | |
| Obligations of U.S. government agencies | \$ 53,903 | \$ 575 | \$ 444 | \$ 54,034 |
| Tax-exempt municipal securities | 4,808 | 169 | — | 4,977 |
| Mortgage-backed securities | 51,082 | 1,202 | 293 | 51,991 |
| Total | <u>\$109,793</u> | <u>\$1,946</u> | <u>\$ 737</u> | <u>\$111,002</u> |

Proceeds from the sales of investment securities available for sale during 2004, 2003, and 2002 were \$18,454,000, \$19,873,000, and \$18,517,000, respectively. Gross gains of \$167,000, \$100,000, and \$283,000, and gross losses of \$24,000, \$0, and \$28,000, were realized on those sales in 2004, 2003, and 2002, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Investment securities available for sale with aggregate carrying amounts of approximately \$105,987,000 and \$80,302,000 at December 31, 2004 and 2003, respectively, were pledged to secure public deposits, FHLB advances, and for other purposes required or permitted by law.

The amortized cost and estimated fair values of investment securities available for sale at December 31, 2004, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| (In thousands) | Amortized Cost | Estimated Fair Value |
|--|-------------------|-------------------------|
| Due in less than one year | \$ 5,901 | \$ 5,933 |
| Due after one year through five years | 43,371 | 43,039 |
| Due after five years through ten years | 770 | 820 |
| Due after ten years | 3,535 | 3,648 |
| Mortgage-backed securities | 79,178 | 79,416 |
| Total | <u>\$132,755</u> | <u>\$132,856</u> |

The following investments available for sale have unrealized losses as of December 31, 2004 for which an other than temporary impairment has not been recognized:

| (In thousands) | Estimated Fair Value | Unrealized Losses |
|---|-------------------------|----------------------|
| Obligations of U.S. government agencies: | | |
| With an unrealized loss for less than 12 months | \$32,192 | \$ 421 |
| With an unrealized loss for more than 12 months | 5,154 | 96 |
| Mortgage-backed securities: | | |
| With an unrealized loss for less than 12 months | 50,320 | 393 |
| With an unrealized loss for more than 12 months | 5,915 | 109 |
| | <u>\$93,581</u> | <u>\$1,019</u> |

At December 31, 2004, there were six obligations of U.S. government agencies and nine mortgage-backed securities with an unrealized loss for less than 12 months and one obligation of a U.S. government agency and three mortgage-based securities with an unrealized loss for more than 12 months. The total estimated fair value of the securities with unrealized losses at December 31, 2004 represented 98.9% of the book value; therefore, the impairment is not considered severe and is due to increases in interest rates rather than credit quality.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) INVESTMENT SECURITIES HELD TO MATURITY

Amortized cost, estimated fair values, and gross unrealized gains and losses of investment securities held to maturity at December 31, 2004 and 2003 are as follows:

| (In thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Gross Estimated Fair Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------------|
| December 31, 2004: | | | | |
| Tax-exempt municipal securities | \$15,938 | \$771 | \$7 | \$16,702 |
| December 31, 2003: | | | | |
| Tax-exempt municipal securities | \$11,437 | \$505 | \$2 | \$11,940 |
| Mortgage-backed securities | 1,016 | 89 | — | 1,105 |
| Total | <u>\$12,453</u> | <u>\$594</u> | <u>\$2</u> | <u>\$13,045</u> |

There were no investment securities held to maturity at December 31, 2004 pledged to secure public deposits or for other purposes required or permitted by law.

The amortized costs and estimated fair values of investment securities held to maturity at December 31, 2004, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| (In thousands) | Amortized Cost | Estimated Fair Value |
|---|-------------------|-------------------------|
| Due after one year through five years | \$ 1,637 | \$ 1,636 |
| Due after ten years | 14,301 | 15,066 |
| Total | <u>\$15,938</u> | <u>\$16,702</u> |

The following investment held to maturity has an unrealized loss as of December 31, 2004 for which an other than temporary impairment has not been recognized:

| (In thousands) | Estimated Fair Value | Unrealized Loss |
|---|-------------------------|--------------------|
| Tax-exempt municipal security with an unrealized loss for less than 12 months | <u>\$1,168</u> | <u>\$7</u> |

One security held to maturity had an unrealized loss at December 31, 2004. This municipal security was purchased in 2001. The unrealized loss is considered immaterial to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) OTHER INVESTMENTS

Other investments at December 31, 2004 and 2003 are summarized as follows:

| (In thousands) | 2004 | 2003 |
|--|-----------------------|----------------|
| Federal Home Loan Bank stock | \$2,079 | \$1,250 |
| Federal Reserve Bank stock | 656 | 656 |
| Lenders for Community Development common stock | 340 | 343 |
| Other | 22 | 22 |
| Total | <u>\$3,097</u> | <u>\$2,271</u> |

(5) INTEREST RATE SWAP AGREEMENTS

Interest rate swap transactions generally involve the exchange of fixed and floating rate interest rate obligations without the exchange of underlying principal amounts. Entering into interest rate contracts involves not only interest rate risk, but also the risk of counterparties' failure to fulfill their legal obligation. Notional principal amounts often are used to express the volume of these transactions, but the amounts potentially subject to credit risk are much smaller.

An interest rate swap to receive a fixed rate with a notional amount of \$25,000,000 was entered into in 2001 to reduce the interest rate risk on certain variable rate loans. This swap matured in October 2004.

During the year ended December 31, 2003, the Company entered into two additional interest swaps with notional amounts of \$25,000,000 each. These swaps were designated as hedges of certain variable cash flows in a portion of the loan portfolio. Because these qualified as hedging instruments, changes in fair value resulting from these interest rate swaps were recorded in accumulated other comprehensive income. In March 2004, the Company terminated one of these swap instruments, receiving proceeds of \$46,000. At the date of termination, the remaining term of the swap was 36 months. The gain from termination is included in accumulated other comprehensive income and is being recognized over the remaining original term of the swap.

The outstanding contracts at December 31, 2004 and 2003 are as follows:

| (Dollars in thousands) | Notional Amount | Prime Rate Paid | Rate Received | Maturity Date | Fair Value Asset (Liability) |
|-----------------------------------|--------------------|--------------------|------------------|------------------|---------------------------------|
| December 31, 2004: | | | | | |
| Receive fixed rate swap | \$25,000 | 5.25% | 6.135% | July 2008 | \$(309) |
| December 31, 2003: | | | | | |
| Receive fixed rate swap | 25,000 | 4.00% | 6.430% | October 2004 | 575 |
| Receive fixed rate swap | 25,000 | 4.00% | 5.260% | March 2007 | (292) |
| Receive fixed rate swap | <u>\$25,000</u> | <u>4.00%</u> | <u>6.135%</u> | <u>July 2008</u> | <u>\$ 27</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(6) LOANS

A summary of loans at December 31, 2004 and 2003 is as follows:

| (In thousands) | 2004 | 2003 |
|---|-------------------------|------------------|
| Commercial, financial, and agricultural | \$ 82,953 | \$ 66,727 |
| Real estate – construction | 10,812 | 15,569 |
| Real estate – mortgage | 245,836 | 234,653 |
| Installment loans to individuals | 680 | 1,294 |
| Less unearned income | (1,076) | (1,171) |
| Loans, net of unearned income | 339,205 | 317,072 |
| Less allowance for loan losses | (4,549) | (4,047) |
| Net loans | <u>\$334,656</u> | <u>\$313,025</u> |

Activity in the allowance for loan losses for the years ended December 31, 2004, 2003, and 2002 was as follows:

| (In thousands) | 2004 | 2003 | 2002 |
|----------------------------------|------------------------|----------------|-----------------|
| Balance, beginning of year | \$ 4,047 | \$3,435 | \$ 3,234 |
| Provision for loan losses | 1,090 | 1,199 | 1,130 |
| Loans charged off | (1,005) | (770) | (1,076) |
| Recoveries | 417 | 183 | 147 |
| Balance, end of year | <u>\$ 4,549</u> | <u>\$4,047</u> | <u>\$ 3,435</u> |

Impaired loans and related amounts included in the allowance for loan losses at December 31, 2004 and 2003 are as follows:

| (In thousands) | 2004 | | 2003 | |
|--|--------------|--------------|---------|-----------|
| | Balance | Allowance | Balance | Allowance |
| Impaired loans, with a related allowance | \$337 | \$157 | \$314 | \$57 |
| Impaired loans, without allowance | 958 | – | 78 | – |

The allowance for impaired loans was primarily determined based on the fair value of the respective loans' collateral. Impaired loans of \$958,000 and \$78,000 at December 31, 2004 and 2003, respectively, did not have a related allowance because these loans were fully guaranteed by the SBA. The average recorded investment in impaired loans for the years ended December 31, 2004, 2003, and 2002 was \$1,088,000, \$938,000, and \$534,000, respectively. Interest income recognized on impaired loans for the years ended December 31, 2004, 2003, and 2002 was approximately \$85,000, \$17,000, and \$29,000, respectively.

Nonaccrual loans amounted to approximately \$1,295,000 and \$392,000 at December 31, 2004 and 2003, respectively. Interest income on nonaccrual loans at December 31, 2004, 2003, and 2002, which would have been reported on an accrual basis in 2004, 2003, and 2002, amounted to approximately \$55,000, \$57,000, and \$30,000, respectively.

At December 31, 2004 and 2003, the Company was servicing loans for others with aggregate principal balances of approximately \$14,476,000 and \$18,139,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2004 and 2003 consisted of the following:

| (In thousands) | 2004 | 2003 |
|--|-----------------|-----------------|
| Land | \$ 685 | \$ 685 |
| Building | 1,416 | 1,414 |
| Other furniture and equipment | 5,548 | 4,923 |
| Leasehold improvements | 1,584 | 1,124 |
| | <u>9,233</u> | <u>8,146</u> |
| Less accumulated depreciation and amortization | (4,921) | (4,093) |
| Premises and equipment, net | <u>\$ 4,312</u> | <u>\$ 4,053</u> |

(8) INTANGIBLE ASSETS

The following is a summary of activity with respect to loan servicing assets included in other assets at December 31, 2004, 2003, and 2002:

| (In thousands) | 2004 | 2003 | 2002 |
|--|--------------|---------------|---------------|
| Balance at beginning of year | \$ 219 | \$ 393 | \$ 652 |
| Amortization of servicing assets | (125) | (174) | (259) |
| Balance at end of year | <u>\$ 94</u> | <u>\$ 219</u> | <u>\$ 393</u> |

The results of the Company's impairment analysis have not identified any significant impairment in the recorded servicing assets. Accordingly, the Company has no valuation allowance for impairment at December 31, 2004 and 2003.

(9) RESERVE REQUIREMENTS

At December 31, 2004 and 2003, the Federal Reserve Bank required that the Bank maintain a reserve balance of \$472,000 and \$6,140,000, respectively.

(10) DEPOSITS

A summary of time deposits by maturity as of December 31, 2004 follows:

| (In thousands) | |
|---|------------------|
| Time to maturity: | |
| One year or less | \$163,576 |
| Over one year through two years | 26,927 |
| Over two years through three years | 24,315 |
| Over three years through four years | 2,951 |
| Over four years through five years | 2,965 |
| Over five years | 80 |
| | <u>\$220,814</u> |

At December 31, 2004, the Company had approximately \$2,018,000 in deposits from its directors, executive officers, and principal stockholders and their affiliates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) OTHER BORROWED FUNDS

Other borrowed funds at December 31, 2004 and 2003 include securities sold under agreements to repurchase totaling \$35,394,000 and \$34,957,000, respectively. The securities sold under agreements to repurchase at December 31, 2004 and 2003 were secured by certain U.S. government agency securities and mortgage-backed securities with an aggregate carrying value of approximately \$44,298,000 and \$35,467,000, respectively. All securities sold under the agreements to repurchase were under the Bank's control. The repurchase agreements at December 31, 2004 and 2003 have maturities of less than 90 days.

The following summarizes pertinent data related to securities sold under agreements to repurchase for the years ended December 31, 2004, 2003, and 2002:

| | 2004 | 2003 | 2002 |
|---|---------------------|--------------|--------------|
| Weighted average borrowing rate at year-end | 2.11% | 1.01% | 1.19% |
| Weighted average borrowing rate during the year | 1.28% | 1.00% | 1.61% |
| Average daily balance during the year | \$28,462,000 | \$17,805,000 | \$10,501,000 |
| Maximum month-end balance during the year | \$36,548,000 | \$34,957,000 | \$13,005,000 |

During 2004 and 2003, the Company had available under a line of credit with SunTrust Bank of Atlanta approximately \$3,000,000. As renewed, the line of credit bears interest at prime minus 1%, and expires August 31, 2005. The Company has pledged 4,000 shares (27% of the outstanding shares) of the Bank's common stock as collateral under this line of credit. At December 31, 2004 and 2003, the Company had no borrowings outstanding under this credit line.

(12) FEDERAL HOME LOAN BANK ADVANCES

At both December 31, 2004 and 2003, the Bank had available line of credit commitments with the Federal Home Loan Bank of Atlanta totaling \$57,480,000, of which \$25,000,000 had been advanced. An advance of \$5,000,000 bears interest at a fixed rate of 5.69%, matures on November 16, 2005 and is callable on a quarterly basis. An advance of \$10,000,000 bears interest at a floating rate of 2.18% which changes with three-month LIBOR on a quarterly basis. This advance matures on February 3, 2006. An advance of \$10,000,000 bears interest at a fixed rate of 2.56% until December 12, 2005, at which time the rate converts to a floating rate of LIBOR and is callable on a quarterly basis. This advance matures on December 12, 2009. The Bank has pledged approximately \$30,588,000 in U.S. government agency and mortgage-backed securities as collateral for advances under this line of credit.

(13) LONG-TERM DEBENTURES

In September 2003, the Company formed a wholly owned subsidiary, Summit Bank Corporation Capital Trust I (the Trust). During 2003, the Trust completed a private placement of \$12,000,000 of Company-obligated mandatorily redeemable securities of a subsidiary holding solely parent debentures (trust preferred securities) to an institutional buyer. The proceeds from the sale were invested in floating rate junior subordinated notes (long-term debentures) issued by the Company, and the Company issued a limited, irrevocable guarantee of the Trust's obligations relating to the trust preferred securities. The long-term debentures have a 30-year term and have a floating rate equal to three-month LIBOR plus 3.1%, which adjusts quarterly (5.65% at December 31, 2004). The long-term debentures and the trust preferred securities are callable by the Company or the Trust, as applicable, at its option after five years, or sooner in certain specific events, subject in all cases to prior approval by the Federal Reserve Board, to the extent required. In each case, redemption will be made at a price of 100% of the face amount of the trust preferred securities, plus the accrued interest thereon through the redemption date. In addition, the Company and the Trust have the ability to defer interest and redemption date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Trust has been determined to be a variable interest entity and, in accordance with FIN 46R, the Company has not consolidated the Trust at December 31, 2004 or December 31, 2003.

Financial information for the Trust, including the balance sheet and the income statement for the years ended December 31, 2004 and 2003, respectively, is as follows:

| (In thousands) | 2004 | 2003 |
|--|-----------------|-----------------|
| Assets: | | |
| Cash | \$ 156 | \$ 140 |
| Note receivable | 12,000 | 12,000 |
| Other assets | 225 | 240 |
| Total assets | <u>\$12,381</u> | <u>\$12,380</u> |
| Liabilities: | | |
| Company obligated mandatorily redeemable securities of subsidiary holding solely parent debentures | \$12,000 | \$12,000 |
| Equity | 381 | 380 |
| Total liabilities and equity | <u>\$12,381</u> | <u>\$12,380</u> |
| Interest income | \$568 | 133 |
| Interest expense | 567 | 133 |
| Net income | <u>\$ 1</u> | <u>\$ -</u> |

(14) INCOME TAXES

Income tax expense (benefit) attributable to income before income taxes for the years ended December 31, 2004, 2003, and 2002 consists of:

| (In thousands) | 2004 | 2003 | 2002 |
|--------------------------|----------------|----------------|----------------|
| Federal – current | \$2,367 | \$1,922 | \$1,477 |
| State – current | 323 | 183 | 53 |
| Federal – deferred | (241) | 33 | 203 |
| State – deferred | (71) | (38) | 10 |
| Total | <u>\$2,378</u> | <u>\$2,100</u> | <u>\$1,743</u> |

Income tax expense attributable to income before income taxes for the years ended December 31, 2004, 2003, and 2002 differed from the amount computed by applying the U.S. Federal income tax rate of 34% to income before income taxes as follows:

| (In thousands) | 2004 | 2003 | 2002 |
|--|----------------|----------------|----------------|
| Computed “expected” income tax expense | \$2,561 | \$2,353 | \$2,002 |
| Increase (decrease) resulting from: | | | |
| State income taxes, net of Federal tax benefit | 166 | 96 | 42 |
| Meals and entertainment expenses | 19 | 17 | 15 |
| Income from bank-owned life insurance | (148) | (164) | (147) |
| Tax-exempt interest | (253) | (197) | (190) |
| Other | 33 | (5) | 21 |
| Total | <u>\$2,378</u> | <u>\$2,100</u> | <u>\$1,743</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2004 and 2003 are presented below:

| (In thousands) | 2004 | 2003 |
|---|----------|----------|
| Deferred tax assets (liabilities): | | |
| Loans, principally due to allowance for loan losses | \$ 1,398 | \$ 1,170 |
| Premises and equipment, principally due to differences in depreciation | (31) | 26 |
| Net Federal and State operating loss carryforwards | 3,492 | 3,740 |
| Net unrealized losses (gains) on investment securities available for sale and interest rate swaps | 67 | (455) |
| Other | 124 | (125) |
| Total deferred tax assets | 5,050 | 4,356 |
| Less valuation allowance | (2,601) | (2,741) |
| Deferred tax assets, net of valuation allowance | \$ 2,449 | \$ 1,615 |

In assessing the realizability of deferred tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projection for future taxable income over the periods which the temporary differences resulting in the deferred tax assets are deductible, Management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowance, at December 31, 2004.

At December 31, 2004 and 2003, the Company had net operating loss carryforwards of approximately \$9,418,000 and \$9,740,000, respectively, for Federal income tax purposes and approximately \$11,038,000 and \$11,360,000, respectively, for state income tax purposes which are available to offset future Federal and state taxable income, subject to certain annual maximum limitations. The net operating loss carryforwards expire at various amounts through 2012, with annual limitations on their utilization. Due to these limitations, certain of these net operating losses will not be used, and the Company has recorded a valuation allowance on the related deferred tax asset.

(15) COMMITMENTS AND CONTINGENCIES

In August 1995, the Company's board of directors entered into agreements with each of the four executive officers of the Bank. The agreements basically provide that in the event of involuntary termination or a change in the executive's position or compensation resulting from a change in the control of the Company due to a merger, consolidation or reorganization, each executive would be entitled to receive an amount equal to 100% of the executive's base salary. These agreements have continuing three-year terms.

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss in the event of nonperformance by the counterparty to the financial instrument for commitments to extend credit is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Company does not anticipate any material losses as a result of these commitments and conditional obligations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future liquidity requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on Management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant, and equipment, residential real estate, income producing properties, and cash on deposit. At December 31, 2004, the Company had outstanding loan commitments totaling \$39,395,000 primarily at floating rates of interest with terms of less than one year.

Standby and commercial letters of credit are conditional commitments issued by the Bank guaranteeing the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting these commitments, as deemed necessary. At December 31, 2004, commitments under standby and commercial letters of credit and guarantees aggregated \$6,950,000.

The Company has several noncancelable operating leases, primarily for banking offices. Rental expense for operating leases (except those with lease terms of a month or less that were not renewed) during 2004, 2003, and 2002 was approximately \$1,163,000, \$922,000, and \$815,000, respectively.

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2004 are:

(In thousands)

| | |
|------------------------------|----------------|
| Year ending December 31: | |
| 2005 | \$1,346 |
| 2006 | 1,217 |
| 2007 | 1,117 |
| 2008 | 711 |
| 2009 | 733 |
| Thereafter | 2,878 |
| Total minimum lease payments | <u>\$8,002</u> |

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of Management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

(16) STOCKHOLDERS' EQUITY

The Company is authorized to issue up to 20,000,000 shares of special stock, with no par value. Liquidation preferences and other such items are subject to future determination by the Company's board of directors. To date, no special stock has been issued.

On January 26, 2004, the Company's board of directors approved a 3-for-2 stock split in the form of a 50% stock dividend payable on February 17, 2004, to shareholders of record on February 9, 2004.

On October 30, 2002, the Company's board of directors approved a 2-for-1 stock split in the form of a 100% stock dividend. All share and per share information in the accompanying consolidated financial statements and notes has been restated to reflect the effects of the additional shares outstanding from the aforementioned stock splits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(17) EMPLOYEE BENEFIT PLANS

The Company has a Stock Incentive Plan (the Plan). The exercise price for incentive options issued under the Plan is determined by the Board of Directors or Stock Option Committee as of the date the option is granted. The period for the exercise of options does not exceed the earlier of ten years from the date of grant or expiration of the Plan. The Company has reserved 679,408 shares of common stock for the Plan.

Stock option activity during the years ended December 31, 2004, 2003, and 2002 is as follows:

| | 2004 | | 2003 | | 2002 | |
|--|---------------------------------------|-----------|---------------------------------------|-----------|---------------------------------------|-----------|
| | Weighted Average Exercise Price | | Weighted Average Exercise Price | | Weighted Average Exercise Price | |
| | Shares | Per Share | Shares | Per Share | Shares | Per Share |
| Options outstanding at beginning of year | 36,000 | \$ 4.65 | 36,000 | \$4.65 | 86,400 | \$4.65 |
| Options granted | 6,000 | 12.99 | — | — | — | — |
| Options exercised | (37,500) | 4.98 | — | — | (50,400) | 4.65 |
| Total | 4,500 | \$12.99 | 36,000 | \$4.65 | 36,000 | \$4.65 |

All options outstanding for each of the years are exercisable. The options outstanding at December 31, 2004 had a weighted average exercise price of \$12.99 and a weighted average contractual maturity of nine years.

The per share weighted average fair value of stock options granted with an exercise price equal to market during 2004 was \$6.31, using the Black Scholes option-pricing model with the following weighted average assumptions: expected life of five years; expected annual dividend rate of 4.14%; risk-free interest rate of 3.00%; and expected volatility of 77%. There were no stock options granted during 2003 and 2002. The stock options granted in 2004 vested immediately.

The Company has a savings plan (the Savings Plan) administered under the provisions of the Internal Revenue Code Section 401(k). During 2004, 2003, and 2002, the Company and Bank made contributions totaling \$103,205, \$83,679, and \$71,276, respectively, to the Savings Plan. The Company computes contributions based on the matching of 50% of employee contributions up to 5% of the employee's compensation.

The Company entered into a Post-Retirement Compensation Agreement with its CEO in 2004 that provides for 15 annual payments of \$24,000 each, beginning six months after her retirement from the Company and no earlier than February 27, 2007. The Company recorded compensation expense of \$73,217 relating to this agreement.

(18) REGULATORY MATTERS

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Qualitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2004 and 2003, that the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2004, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that Management believes have changed the Bank's capital category.

The actual capital amounts and ratios are also presented in the table below (dollars in thousands):

| | Actual | | Minimum for Capital Adequacy Purposes | | Minimum to be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|----------|--------|---|-------|---|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2004: | | | | | | |
| Total capital – risk-based (to risk-weighted assets): | | | | | | |
| Bank | \$46,712 | 13.13% | \$28,468 | 8.0% | \$35,585 | 10.0% |
| Consolidated | 49,646 | 13.92 | 28,531 | 8.0 | N/A | N/A |
| Tier 1 capital – risk-based (to risk-weighted assets): | | | | | | |
| Bank | 42,263 | 11.88 | 14,234 | 4.0 | 21,351 | 6.0 |
| Consolidated | 44,263 | 12.41 | 14,266 | 4.0 | N/A | N/A |
| Tier 1 capital – leverage (to average assets): | | | | | | |
| Bank | 42,263 | 8.42 | 20,070 | 4.0 | 25,087 | 5.0 |
| Consolidated | 44,263 | 8.82 | 20,076 | 4.0 | N/A | N/A |
| As of December 31, 2003: | | | | | | |
| Total capital – risk-based (to risk-weighted assets): | | | | | | |
| Bank | \$43,381 | 13.25% | \$26,183 | 8.0% | \$32,729 | 10.0% |
| Consolidated | 46,168 | 14.09 | 26,221 | 8.0 | N/A | N/A |
| Tier 1 capital – risk-based (to risk-weighted assets): | | | | | | |
| Bank | 39,334 | 12.02 | 13,091 | 4.0 | 19,637 | 6.0 |
| Consolidated | 40,161 | 12.26 | 13,111 | 4.0 | N/A | N/A |
| Tier 1 capital – leverage (to average assets): | | | | | | |
| Bank | 39,334 | 8.36 | 18,823 | 4.0 | 23,528 | 5.0 |
| Consolidated | 40,161 | 8.52 | 18,840 | 4.0 | N/A | N/A |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(19) FAIR VALUES OF FINANCIAL INSTRUMENTS

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions would significantly affect the estimates. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

Fair value estimates are based on existing on- and off-balance-sheet financial instruments and other recorded assets and liabilities without attempting to estimate the value of anticipated future business. In addition, tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments and certain other assets and liabilities:

Cash and due from banks: The carrying amounts of cash and due from banks approximate those assets' fair values.

Federal funds sold: The carrying amounts of federal funds sold approximate their fair value.

Interest-bearing deposits with other banks: The carrying amounts of interest-bearing deposits with other banks approximate their fair value.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Other investments: The carrying amounts of other investments approximate their fair value.

Interest rate swaps: Fair values for interest rate swaps are based on quoted market prices.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for all other loans are estimated based upon a discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Off-balance-sheet instruments: Fair values for the Company's off-balance-sheet instruments are based on a comparison with terms, including interest rate and commitment period, currently prevailing to enter into similar agreements, taking into account credit standings. The carrying and fair values of off-balance-sheet instruments at December 31, 2004 and 2003 were not material.

Deposits: Fair values for fixed-rate time deposits are estimated using a discounted cash flow analysis that applies interest rates currently being offered on deposits of similar terms of maturity. The carrying amounts of all other deposits, due to their short-term nature, approximate their fair values.

Federal Home Loan Bank advances: The carrying value for the fixed rate Federal Home Loan Bank advances is estimated using a discounted cash flow analysis that applies interest rates currently being offered on advances of similar terms of maturity.

Other borrowed funds: The carrying amounts of other borrowed funds, due to their short-term nature, approximate their fair values.

Long-term debentures: The fair value of the long-term debentures estimates its carrying value due to the variable rate nature of the debentures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The estimated fair value of the Company's financial instruments as of December 31, 2004 and 2003 are as follows:

| (In thousands) | 2004 | | 2003 | |
|--|----------------|------------|----------------|------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets: | | | | |
| Cash and due from banks | \$ 20,810 | \$ 20,810 | \$ 16,227 | \$ 16,227 |
| Interest-bearing deposits with other banks | 249 | 249 | 261 | 261 |
| Federal funds sold | 16,000 | 16,000 | 1,750 | 1,750 |
| Investment securities available for sale | 132,856 | 132,856 | 111,002 | 111,002 |
| Investment securities held to maturity | 15,938 | 16,702 | 12,453 | 13,045 |
| Interest rate swaps | — | — | 602 | 602 |
| Other investments | 3,097 | 3,097 | 2,271 | 2,271 |
| Loans, net | 334,656 | 336,363 | 313,025 | 316,111 |
| Liabilities: | | | | |
| Deposits: | | | | |
| Noninterest-bearing | \$104,055 | \$104,055 | \$85,103 | \$85,103 |
| Interest-bearing demand and savings | 109,584 | 109,584 | 76,966 | 76,966 |
| Time deposits | 220,814 | 221,256 | 206,530 | 209,583 |
| Federal Home Loan Bank advances | 25,000 | 25,091 | 25,000 | 24,578 |
| Other borrowed funds | 35,394 | 35,394 | 34,957 | 34,957 |
| Interest rate swaps | 309 | 309 | 292 | 292 |
| Long-term debentures | 12,000 | 12,000 | 12,000 | 12,000 |

(20) CONDENSED FINANCIAL INFORMATION OF SUMMIT BANK CORPORATION (PARENT COMPANY ONLY)

CONDENSED BALANCE SHEETS

| (In thousands except share amounts) | December 31 | |
|---|-----------------|-----------------|
| | 2004 | 2003 |
| Assets | | |
| Cash and due from Bank | \$ 2,242 | \$ 2,363 |
| Investment in the Bank, at equity | 43,695 | 41,949 |
| Investment securities | 22 | 22 |
| Investment in nonbank subsidiaries | 380 | 274 |
| Due from nonbank subsidiary | — | 165 |
| Other assets | 300 | 29 |
| Total assets | \$46,639 | \$44,802 |
| Liabilities and Stockholders' Equity | | |
| Accrued liabilities | \$ 10 | \$ 66 |
| Long-term debentures | 12,000 | 12,000 |
| Total liabilities | 12,010 | 12,066 |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value. Authorized 100,000,000 shares; issued and outstanding 5,690,104 shares in 2004 and 5,652,604 shares in 2003 | 57 | 57 |
| Additional paid-in capital | 17,445 | 17,258 |
| Accumulated other comprehensive (loss) income | (108) | 1,064 |
| Retained earnings | 17,235 | 14,357 |
| Total stockholders' equity | 34,629 | 32,736 |
| Total liabilities and stockholders' equity | \$46,639 | \$44,802 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF INCOME

| (In thousands) | Years ended December 31 | | |
|--|-------------------------|---------|---------|
| | 2004 | 2003 | 2002 |
| Income: | | | |
| Interest on investment securities | \$ — | \$ — | \$ 16 |
| Other loss | — | — | (18) |
| Dividend income received from Bank | 2,800 | 1,425 | 1,725 |
| Total income | 2,800 | 1,425 | 1,723 |
| Expense: | | | |
| Interest expense | 568 | 133 | 17 |
| Operating expenses | 248 | 174 | 260 |
| Total expense | 816 | 307 | 277 |
| Income before taxes and equity in undistributed net income of subsidiaries | 1,984 | 1,118 | 1,446 |
| Income tax benefit | 253 | 100 | 98 |
| Income before equity in undistributed net income of subsidiaries | 2,237 | 1,218 | 1,544 |
| Equity in undistributed net income of subsidiaries | 2,916 | 3,604 | 2,600 |
| Net income | \$5,153 | \$4,822 | \$4,144 |

CONDENSED STATEMENTS OF CASH FLOWS

| (In thousands) | Years ended December 31 | | |
|---|-------------------------|----------|----------|
| | 2004 | 2003 | 2002 |
| Cash flows from operating activities: | | | |
| Net income | \$ 5,153 | \$ 4,822 | \$ 4,144 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Net losses on sales of investment securities available for sale | — | — | 18 |
| Equity in undistributed net income of subsidiaries | (2,916) | (3,604) | (2,600) |
| Decrease in due from nonbank subsidiary | — | — | 45 |
| (Increase) decrease in other assets | (250) | 15 | (11) |
| (Decrease) increase in other liabilities | (20) | (101) | 121 |
| Net cash provided by operating activities | 1,967 | 1,132 | 1,717 |
| Cash flows from investing activities: | | | |
| Proceeds from sales of investment securities available for sale | — | — | 884 |
| Purchase of investment securities | — | (22) | — |
| Contribution to bank subsidiary | — | (9,000) | — |
| Contribution to nonbank subsidiary | — | (380) | — |
| Net cash (used in) provided by investing activities | — | (9,402) | 884 |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of long-term debentures | — | 12,000 | — |
| Dividends paid to shareholders | (2,275) | (1,960) | (1,512) |
| Issuance of common stock | 187 | — | 233 |
| Repurchase of common stock | — | — | (1,186) |
| Net cash (used in) provided by financing activities | (2,088) | 10,040 | (2,465) |
| Net (decrease) increase in cash and cash equivalents | (121) | 1,770 | 136 |
| Cash and cash equivalents at beginning of year | 2,363 | 593 | 457 |
| Cash and cash equivalents at end of year | \$ 2,242 | \$ 2,363 | \$ 593 |
| Supplemental disclosure of cash paid during the year: | | | |
| Income taxes | \$ 2,287 | \$ 1,916 | \$ 1,652 |
| Interest | 568 | 133 | 17 |
| Supplemental non-cash activity – forgiveness of amount due from nonbank subsidiary upon its dissolution | \$ 165 | — | — |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The primary source of funds available to the Parent Company to pay shareholder dividends and other expenses is from the Bank. The Office of the Comptroller of the Currency requires its prior approval for a bank to pay dividends in excess of the bank's net profits to date for that year combined with its retained net profits for the preceding two years. The amount of cash dividends available from the bank subsidiary for payment in 2005 is approximately \$6,520,000 plus earnings in 2005, if any. At December 31, 2004, approximately \$37,175,000 of the Company's investment in the bank subsidiary is restricted as to dividend payments from the bank subsidiary to the Parent Company.

(21) SUPPLEMENTAL FINANCIAL DATA

Components of other noninterest expenses in excess of 1% of total interest and noninterest income for any of the respective years are as follows:

| (In thousands) | Years ended December 31 | | |
|-----------------------------------|-------------------------|-------|-------|
| | 2004 | 2003 | 2002 |
| Data/item processing | \$517 | \$456 | \$438 |
| Other losses | 465 | 71 | 387 |
| Marketing and community relations | 388 | 300 | 237 |
| Postage and courier | 361 | 326 | 293 |
| Telephone | 353 | 316 | 275 |
| Legal fees | 240 | 175 | 303 |
| Other professional services | 510 | 250 | 316 |

(22) COMPREHENSIVE INCOME

Comprehensive income includes net income and other comprehensive income (loss) which includes the effect of unrealized gains and losses on investment securities available for sale and interest rate swaps in stockholders' equity. The following table sets forth the amounts of other comprehensive income (loss) included in stockholders' equity along with the related tax effect for the years ended December 31, 2004, 2003, and 2002.

| (In thousands) | Pretax Amount | Tax (Expense) Benefit | Net of Tax Amount |
|---|------------------|-----------------------|-------------------|
| December 31, 2004: | | | |
| Net unrealized losses on investment securities available for sale | \$ (965) | \$ 343 | \$ (622) |
| Net unrealized losses on interest rate swaps | (573) | 119 | (454) |
| Less reclassification adjustment for net gains realized in net income | 156 | (60) | 96 |
| Other comprehensive loss | <u>\$(1,694)</u> | <u>\$ 522</u> | <u>\$(1,172)</u> |
| December 31, 2003: | | | |
| Net unrealized losses on investment securities available for sale | \$(1,515) | \$ 662 | \$(853) |
| Net unrealized losses on interest rate swaps | (616) | 226 | (390) |
| Less reclassification adjustment for net gains realized in net income | 100 | (41) | 59 |
| Other comprehensive loss | <u>\$(2,231)</u> | <u>\$ 929</u> | <u>\$(1,302)</u> |
| December 31, 2002: | | | |
| Net unrealized gains on investment securities available for sale | \$ 2,621 | \$(1,002) | \$ 1,619 |
| Net unrealized gain on interest rate swaps | 905 | (264) | 641 |
| Less reclassification adjustment for net gains realized in net income | 255 | (96) | 159 |
| Other comprehensive income | <u>\$ 3,271</u> | <u>\$(1,170)</u> | <u>\$ 2,101</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(23) QUARTERLY FINANCIAL DATA (UNAUDITED)

The supplemental quarterly financial data is as follows:

| (In thousands) | March 31, 2004 | Quarters ended | | |
|--|-------------------|------------------|-----------------------|----------------------|
| | | June 30, 2004 | September 30, 2004 | December 31, 2004 |
| Interest income | \$6,520 | \$6,457 | \$6,665 | \$7,048 |
| Interest expense | 1,927 | 2,016 | 2,096 | 2,221 |
| Net interest income | 4,593 | 4,441 | 4,569 | 4,827 |
| Provision for loan losses | 464 | 201 | 250 | 175 |
| Net income | 1,321 | 1,291 | 1,337 | 1,204 |
| Net income per share – basic | 0.23 | 0.23 | 0.23 | 0.22 |
| Net income per share – diluted | 0.23 | 0.23 | 0.23 | 0.22 |

| (In thousands) | March 31, 2003 | Quarters ended | | |
|--|-------------------|------------------|-----------------------|----------------------|
| | | June 30, 2003 | September 30, 2003 | December 31, 2003 |
| Interest income | \$5,500 | \$5,641 | \$5,967 | \$6,440 |
| Interest expense | 1,801 | 1,739 | 1,720 | 1,885 |
| Net interest income | 3,699 | 3,902 | 4,247 | 4,555 |
| Provision for loan losses | 214 | 108 | 477 | 400 |
| Net income | 1,030 | 1,203 | 1,227 | 1,362 |
| Net income per share – basic | 0.18 | 0.21 | 0.22 | 0.24 |
| Net income per share – diluted | 0.18 | 0.21 | 0.22 | 0.24 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Summit Bank Corporation:

We have audited the accompanying consolidated balance sheets of Summit Bank Corporation and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summit Bank Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004 in conformity with United States generally accepted accounting principles.

KPMG LLP

Atlanta, Georgia
January 25, 2005

CORPORATE INFORMATION

TAKING CREDIT ADMINISTRATION TO THE NEXT LEVEL

SunTrust Bank
Corporate Trust Department
58 Edgewood Avenue, Room 225
Annex Building
Atlanta, Georgia 30303

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on Monday, May 2, 2005, at 3:00 p.m., at The Summit National Bank, 4360 Chamblee-Dunwoody Rd., Suite 300 Atlanta, Georgia, 30341 (770) 454-0400

FORM 10-K

The Company's Annual Report on Form 10-K for the year ended December 31, 2004, is available without charge to stockholders upon request. Write or call:

Pin Pin Chau, CEO
The Summit National Bank
4360 Chamblee-Dunwoody Road
Atlanta, Georgia 30341
(770) 454-0400

MARKET PRICE & DIVIDEND INFORMATION

The Company's common stock is listed on the Nasdaq Stock Market under the trading symbol of "SBGA". The Company has six to eight brokerage firms that make a market in its stock. The following table sets forth: (1) the high and low sales prices for the common stock as reported by Nasdaq; and (2) the amount of the quarterly dividends declared on the common stock during the periods indicated.

| Calendar period | Sale Price | | Cash Dividend |
|-----------------------|-----------------|-----------------|---------------|
| | High | Low | Declared |
| 2004 | | | |
| First Quarter | \$ 16.98 | \$ 10.80 | \$.10 |
| Second Quarter | 17.60 | 14.02 | .10 |
| Third Quarter | 18.68 | 15.90 | .10 |
| Fourth Quarter | 18.68 | 16.25 | .10 |
| 2003 | | | |
| First Quarter | \$ 9.99 | \$ 8.00 | \$.087 |
| Second Quarter | 10.00 | 8.20 | .087 |
| Third Quarter | 11.07 | 9.40 | .087 |
| Fourth Quarter | 11.26 | 10.35 | .087 |

Note: All prior period amounts reflect an adjustment for the 2004 and 2002 stock dividends.

The Company is a legal entity, separate and distinct from The Summit National Bank (the "Bank"), its banking subsidiary, and its ability to pay dividends depends primarily on the receipt of dividends from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of the Bank's regulatory agencies. Further restrictions could result from a review by regulatory authorities of the Bank's capital adequacy. The amount of cash dividends available from the Bank for payment in 2005 is approximately \$6,520,000 plus current year earnings of the Bank. At December 31, 2004, approximately \$37,175,000 of the Company's investment in the bank subsidiary is restricted as to dividend payments from the Bank to the Company. In 2004, the Company's annual cash dividend to shareholders was \$.40 per share. In 2003, the Company's annual cash dividend to shareholders was \$.35 per share, restated for the stock dividend in February 2004. The Company's cash dividends to shareholders represented 44.1% of 2004 earnings compared to 40.6% in 2003.



Summit Bank Corporation

www.summitbk.com

MAIN OFFICE

4360 Chamblee-Dunwoody Rd.
Atlanta, GA 30341
(770) 454-0400

ASIAN BANKING CENTER

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Chamblee, GA 30341
(770) 455-1772

VININGS BRANCH

2727 Paces Ferry Rd. NW
Atlanta, GA 30339
(770) 432-1000

PEACHTREE CORNERS BRANCH

3280 Holcomb Bridge Rd.
Norcross, GA 30092
(770) 582-0705

SAN JOSE BRANCH

1648-A Tully Rd.
San Jose, CA 95122
(408) 270-1500

FREMONT BRANCH

46615 Mission Boulevard
Fremont, California 94539
(510) 252-1600

PHOENIX BOULEVARD BRANCH

(Limited Service Branch)
2 Crown Center
1745 Phoenix Boulevard, Suite 270
Atlanta, GA 30349
(707) 454-0400

PARK VILLAGE BRANCH

2540 Pleasant Hill Rd.
Duluth, GA 30096
(678) 417-7572

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Shanghai, China 200052
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